THE GLOBAL NEWSPAPER
Edited in Paris
Printed Simultaneously in Paris, London, Zurich, Hong Kong and Singapore

WEATHER DATA APPEARS ON PAGE 22

INTERNATIONAL
Herald Tribune
Published With The New York Times and The Washington Post

No. 31,199 — PARIS, MONDAY, JUNE 13, 1983 — ESTABLISHED 1887

Aides Urge Shultz To Consider Visit To Moscow Soon

By Hedrick Smith
New York Times Service

WASHINGTON — Some State Department officials have been urging Secretary of State George P. Shultz to consider undertaking a diplomatic mission to Moscow this summer, according to high-ranking administration officials.

The purpose of the trip, the officials said, would be to explore possibilities for easing negotiating deadlocks and to determine what lies behind Moscow's recently expressed interest in more normal relations.

Shultz expresses irritation with France's ambiguity about its role in NATO. Page 2.

But the prevalent thinking within the administration regarding such a mission, several officials said, is considerably more cautious. They said the idea had not been broached to the Soviet government because of disagreement within the administration over the wisdom of such a mission. Mr. Shultz said Friday that there had not been enough progress on a wide range of Soviet-U.S. issues to warrant any high-level meeting before the fall, when he is scheduled to talk with Foreign Minister Andrei A. Gromyko.

Specifically, some State Department officials are said to have proposed that Mr. Shultz seek discussions with Mr. Gromyko this summer to deal with arms issues and regional disputes and to explore whether Moscow will move toward agreements on such issues as cultural exchanges and the opening of consulates in Kiev and New York.

Their hope is that such modest initial steps could improve the climate of Soviet-U.S. relations.

Some officials, including White House advisers, are understood to feel that a Shultz mission to Moscow this summer might help set in motion a series of meetings that would eventually lead to a meeting between President Ronald Reagan and the Soviet leader, Yuri V. Andropov.

William P. Clark, the president's national security adviser, is reported to have said he fears that Moscow might exploit a visit by Mr. Shultz to generate a "peace offensive" aimed at preventing deployment of U.S. medium-range nuclear missiles in Western Europe at the end of the year.

Although Mr. Reagan stressed new "flexibility" in his strategic arms negotiating position last week, he is said to be leery of premature public pressures for a summit meeting because of exaggerated expectations of some breakthrough in the now-stalemated arms talks.

Officials said that if Mr. Shultz became persuaded that a trip to Moscow would be worthwhile, the president would probably go along with the idea. But one official cautioned that the administration did not have a clear strategy for the next steps after such a mission and asserted that it would be unwise to attempt it "unless we have a clear agenda and know where we want to go."

High-ranking officials emphasized that "nothing is going on now with the Russians." So far, they said, regular diplomatic contacts and the arms negotiations in Geneva give no hint of possible shifts in Soviet positions on the most controversial and important issues or any sign of new Soviet interest in compromises on arms control or regional problems such as Poland, Afghanistan or Central America.

Earlier this month, the State Department asserted that the Soviet leadership would "find a ready partner" if it was prepared "to take concrete steps in the interest of better relations."

That comment came in reaction to a report from W. Averell Harriman, the former U.S. ambassador to Moscow and longtime specialist on Soviet affairs, that Mr. Andropov had said he wanted more normal relations with the United States and was "interested in seeking joint initiatives."

Mr. Reagan has been urged by visiting foreign leaders such as Prime Minister Yasuhiro Nakasone of Japan and Chancellor Helmut Kohl of West Germany to seek a summit meeting with Mr. Andropov as soon as possible. Similar calls have come from the Senate majority leader, Howard H. Baker Jr. of Tennessee, and the chairman of the Senate Foreign Relations Committee, Charles H. Percy, Republican of Illinois.

The White House remains concerned, however, about Soviet moves in the Caribbean and Central America and watchful of Moscow's reactions to the new U.S. arms negotiating position in Geneva.

Administration officials report that the number of Soviet military personnel in Cuba has risen from about 6,000 to 7,500 over the last two years. Although the size of the Soviet [illegible], a motorized rifle unit, has remained at roughly 2,500 to 3,000 troops, officials said, the numbers of Soviet intelligence, support and advisory personnel has risen.

Washington has also paid close heed to reports that Mr. Andropov has appeared frail at recent ceremonial occasions. So far, officials regard these reports as exaggerated. But specialists said that, if Mr. Andropov continued to be troubled by health problems, it could affect his ability to assert strong leadership and, should he want to, lead the Politburo to shift Soviet negotiating positions.

United Press International

Michael Foot, 69, who will step down as leader of Britain's Labor opposition at the party conference in October.

In U.K., Welfare State Works for Thatcher

By R.W. Apple Jr.
New York Times Service

LONDON — The real victor of last week's British general election, some wag commented, was Clement Attlee. For it was Mr. Attlee's Labor government that, starting in 1945, put in place the safety net of welfare benefits without which, it is argued, no Conservative prime minister could have even dreamed of winning re-election with more than three million people unemployed.

NEWS ANALYSIS

There were many other reasons why Margaret Thatcher won a landslide victory, not least her own resolute leadership, the disarray and the extreme platform of the Labor opposition and the inequitable British electoral system, which gave the Conservatives 61 percent of the seats in the House of Commons for 42 percent of the popular vote. But it is unquestionably true that the postwar package of welfare benefits softened the anger of the working people that might otherwise have caused them to give more extensive backing to Labor.

It is often suggested in the United States that the prime minister is in the process of dismantling, or intends to dismantle, the welfare state. That is incorrect. At most, she is streamlining it a bit and painting it a different color.

Despite her emphasis on the Victorian values of thrift and self-reliance, despite her visceral dislike of much of what the Attlee government and its successors have wrought, Mrs. Thatcher is far too clever a politician to embark on the kind of crusade against welfare chiselers and over-generous benefits that President Ronald Reagan indulges in. Not once did she suggest during her first administration or during her campaign that the dole, as unemployment compensation is uneuphemistically known here, should be limited or redefined, although many recipients of dole payments are known to have hidden, part-time jobs in the "black economy." The consensus is too strong across class lines that those without jobs should be taken care of.

Nor has Mrs. Thatcher ever suggested that state pensions should be cut back. The Tory manifesto promised to maintain the link to inflation, so that retired people can maintain their standards.

The Labor opposition tried to demonstrate, with the help of leaked cabinet documents, that the prime minister intended to do away with the National Health Service, the country's system of socialized medicine. It was unable to make the charge stick.

She pledged that she would increase its funding during the next five years, and she was able to point to figures showing that she had done so during the last four. But she undoubtedly would like to increase the scope for private medical insurance plans and to make other changes that would improve the service's efficiency. It has an outstanding record as far as major medical care is concerned, but it is so overburdened that "minor" operations and preventive medicine are not so well attended to.

Of all the provisions of the welfare state, housing is the area in which Mrs. Thatcher has made the most far-reaching change and the one from which she has derived the

(Continued on Page 2, Col. 2)

Foot Quits Labor Post; Thatcher Ousts Pym

By Peter Osnos
Washington Post Service

LONDON — Britain's opposition Labor Party announced the resignation Sunday of its leader Michael Foot, the aging pillar of the party's left wing who led Labor to its worst defeat in more than 60 years in last week's general election.

Mr. Foot will formally step down at the party's next annual conference in October. But the succession struggle was already well under way before Mr. Foot's decision was disclosed. A number of candidates have made their intentions known, assuring a lively and possibly damaging political donnybrook unless the choice can somehow be brokered in advance.

The three front-runners are Neil Kinnock, an engaging 41-year-old Welshman on the party's left; Roy Hattersley, 50, a Labor moderate who is also a popular newspaper columnist; and Peter Shore, 59, who is on the party's right on most issues and has the most experience in government.

The departure of Mr. Foot, who will be 70 next month, was inevitable in the aftermath of the election debacle which left Labor with a substantially reduced contingent in Parliament and saw its popular vote heavily eroded by the centrist alliance of Liberals and Social Democrats.

The deputy leader, Denis Healey, 65, also will go at the next party conference, he let it be known Sunday. For Mr. Healey, the campaign was a frustrating and ultimately disastrous experience. As one of Labor's most durable figures, he was shown in most opinion polls to be a stronger candidate against Prime Minister Margaret Thatcher than Mr. Foot.

But the party could not bring itself to jettison Mr. Foot. Once Labor's campaign was under way, Mr. Healey only added to the troubles by publicly disagreeing with the party manifesto's commitment to a nonnuclear defense policy and later, accusing Mrs. Thatcher of "glorying in the slaughter" of last year's Falklands war.

There appear to be two main elements to the upcoming struggle for Labor's mantle. The first will be to find the right person to reconcile Labor's ideological divisions. Because there is so much time before the party ballot, the candidates will be subjected to scrutiny on their adherence to such planks in the Labor platform as unilateral nuclear disarmament, withdrawal from the European Community and large-scale nationalization of British industry.

Labor's center of gravity has shifted sharply to the left since the

(Continued on Page 2, Col. 2)

UPI

Sir Geoffrey Howe

UPI

Francis Pym

AP

Nigel Lawson

Howe Gets Foreign Office In British Cabinet Shuffle

New York Times Service

LONDON — Prime Minister Margaret Thatcher has dismissed Foreign Secretary Francis Pym as part of a reorganization of her cabinet at the start of her second term. Sir Geoffrey Howe, who has served as chancellor of the Exchequer throughout Mrs. Thatcher's first four-year administration, was named as Mr. Pym's successor.

Authoritative sources in London said that the prime minister had asked Mr. Pym, a moderate with whom she had often quarreled, to move to another ministry to make way for a new appointee. When he refused, she demanded and received his resignation.

In another move Saturday evening, Mrs. Thatcher shifted William Whitelaw, the deputy prime minister and home secretary, to the House of Lords, as expected, but arranged with Queen Elizabeth II for him to be given a hereditary peerage — the first since 1964. Mr. Whitelaw, who will be 65 on June 18, was created a viscount and will serve as the Tory leader in the Lords.

The new foreign secretary, Sir Geoffrey, is one of the prime minister's closest associates and impressed her by refusing to buckle two years ago when the government's economic policies were under fire from all sides.

The prime minister promoted two of her young favorites to the other senior positions in government. Leon Brittan, 43, was moved from the No. 2 job at the Treasury to the Home Office, succeeding Mr. Whitelaw. Nigel Lawson, 51, was moved from the relatively junior post of energy secretary to the most senior of all, chancellor.

Mrs. Thatcher had said in a television interview that she would not exile from the cabinet all the leading moderates, or "wets," as the opposition had predicted. But in replacing Mr. Whitelaw and Mr. Pym, she removed two of the three most prominent among them. Other leading moderates had gone in a reshuffle about halfway through her first administration.

There was no mention in the announcement of James Prior, the third prominent wet, who has been serving as Northern Ireland secretary. It was presumed in political circles Saturday that he was staying on.

The prime minister rewarded Cecil Parkinson, the Conservative Party chairman, by making him the minister in a new superdepartment, Trade and Industry, in which two old departments will be merged. She has described him as the best chairman the Tories have ever had and leaned heavily on him for advice during the Falklands war and the campaign. He has very little governmental experience and would not normally have taken over a cabinet post without serving as a junior minister first.

Mr. Lawson's place at the Energy Department was given to Peter Walker — a reward for his work as agriculture secretary, which impressed Mrs. Thatcher even though he was a close associate of former Prime Minister Edward Heath, whom she ousted as Conservative leader.

In other changes, the prime minister moved Patrick Jenkin, who had hoped for something better, from the old Industry Department to the Environment Department. The head of the other half of Mr. Parkinson's superdepartment, Lord Cockfield, the trade minister, was made chancellor of the Duchy of Lancaster. He had been considered less than a rousing success in his old job, and his new one is semiceremonial.

David Howell, another of the ministers whom Mrs. Thatcher considered a failure, was dropped from the government and succeeded as transport minister by Tom King, the former environment secretary.

Peter Rees, a junior trade minister, was the only new face brought into the senior level of the cabinet, whose membership fell from 22 to 21. He succeeds Mr. Brittan as the deputy at the Treasury, serving under Mr. Lawson.

Mr. Pym's letter of resignation was brief and almost curt. He wrote: "As you know, I have appreciated serving in your government in the various posts I have held." His difficulties with Mrs. Thatcher began during the Falklands war, when he was more eager than she to negotiate with the Argentines, and continued during the campaign, when she publicly admonished him twice for holding independent views.

Little significant change in Brit-

(Continued on Page 2, Col. 1)

Some Progress Is Seen on Arab Consensus

By Joseph Fitchett
International Herald Tribune

PARIS — A flurry of top-level Arab consultations, inspired mainly by Saudi Arabia, appeared Sunday to be making limited progress in reducing rivalries enough for a summit of major Arab countries to discuss the crises in Lebanon and in the Palestine Liberation Organization.

Any consensus, however, may fall short of U.S. hopes for progress on Syrian and Israeli troop withdrawals from Lebanon — the key Middle East issue under negotiation — or movement on the wider search for Arab-Israeli peace, several Western diplomats said in telephone interviews.

Syria, apparently unswayed by Saudi diplomacy, again flatly rejected Sunday any compromise in its opposition to the recent Lebanon-Israel accord. The rejection followed a visit to Damascus by Moamer Qadhafi of Libya, who had earlier held talks in Jordan and in Saudi Arabia, which appeared temporarily to blunt Colonel Qadhafi's antagonism to both countries.

Saudi Arabia's campaign, however, appeared to be gaining in its most urgent priority: saving the unity of the Palestinians behind Yasser Arafat, chairman of the PLO.

Mr. Arafat, in Bahrain Sunday on his own trip to Arab capitals, said an Arab summit was to be held to discuss Middle East peace proposals. But he said the date, place and participants for such a meeting — long blocked by hostility between Arab moderate and radical regimes over U.S.-led peace moves — were under discussion.

A full-scale Arab summit is scheduled for November in Saudi Arabia, but Saudi leaders have been trying to hold an earlier meeting to salvage a common Arab position. Saudi officials, interviewed last week, expressed concern over three developments: the collapse of talks between Jordan and the PLO over President Ronald Reagan's peace plan, Syrian opposition to the agreement on Lebanon and the mutiny against Mr. Arafat.

While Saudi Arabia has been unable to use its financial power to reunify Arab ranks behind recent U.S. initiatives, Saudi leaders have succeeded in mobilizing most Arab leaders in the search for a consensus — including, most notably, Colonel Qadhafi.

An Arab meeting, diplomats said, might facilitate a bargain — for example, on Lebanon — and would generate political benefits for moderate pro-Western governments, including Saudi Arabia and Jordan, and for Mr. Arafat. Valuable support for Mr. Arafat is also coming from the Soviet Union, which reportedly told Syria earlier last week that it wants him to stay as PLO leader.

The risk is that the PLO could lose its political and negotiating unity, splitting into two factions — one led by Mr. Arafat and supported by Saudi Arabia and other conservatives, the other supported by Syria and Libya, which have been helping the mutinous radicals.

Patching up Arab unity could restore some semblance of a single Arab bargaining position, but Saudi Arabia may well have to move closer to Syria's tough terms on Lebanon, diplomats said.

Syria said Sunday that its rejection of the Lebanese-Israeli accord is "not negotiable." That statement followed remarks in Washington Saturday by Lebanon's foreign minister, Elie Salem, that the United States and Syria would soon start discussing the withdrawal of the estimated 50,000 Syrian troops in Lebanon.

[The multinational peacekeeping force in Lebanon will be needed for as long as a year after Syria, Israel and the PLO withdraw their forces, Mr. Salem said Sunday on ABC-TV's "This Week with David Brinkley." Mr. Salem said he was optimistic about the chances of a Syrian withdrawal, The Associated Presss reported from New York, he also said he believed the United States would play an active role in the withdrawal.

["Sooner or later Secretary Shultz or his representative have to be involved" in the negotiations, Mr. Salem said, "because Syria has many issues it wants to discuss with the United States."]

Saudi officials have said privately that only U.S. moves to reopen Syrian negotiations with Israel on recovering the occupied Golan Heights will move Syria, but other diplomats have speculated that President Hafez al-Assad might be satisfied with separate Syrian security arrangements in Lebanon to replace his troops.

■ **Israel Rejects Partial Pullout**

Israel is not considering a partial withdrawal of its forces from Lebanon despite recent high casualties, the Israeli cabinet secretary said Sunday, Reuters reported from Jerusalem. Dan Meridor, after Sunday's cabinet meeting, said Israel was still seeking a withdrawal of all foreign forces and would not move its troops unless Syrian and Palestinian soldiers also left.

The cabinet rejected a call by former Defense Minister Ariel Sharon for an inquiry into the war with Lebanon. Mr. Sharon, now minister without portfolio, has complained that he was being singled out for blame in the government's invasion last summer.

INSIDE

13 Die, 40 Hurt in India

United Press International

NEW DELHI — Thirteen persons were killed and 40 injured Saturday when the tin roof of a movie theater collapsed during a storm in Bihar state in eastern India.

Many Egyptians Make Late Start on Ramadan

United Press International

CAIRO — The Moslem holy month of Ramadan took many Egyptians by surprise, arriving 24 hours earlier than they expected.

In calculating the start of the month of prayer and fasting, modern methods are shunned. The words of Mohammed, that "he who sees [the new moon of] the month should fast," are followed literally. Egyptians expected Ramadan to begin Sunday, and Moslem leaders had arranged a ceremony Saturday evening to spot the new moon.

But the moon was seen in Saudi Arabia on Friday evening, making Saturday the first of Ramadan. Egypt accepted the Saudi observation and an announcement was broadcast shortly after midnight, while many Egyptians were asleep.

"I was having breakfast as usual in a restaurant when someone told me Ramadan had started," said Ahmed Abdel-Al, a merchant. "At first I thought it was a bad joke. But unfortunately, it turned out to be true." Moslems worldwide are required to fast from sunrise to sunset throughout the lunar month.

In some parts of Cairo, police cars with loudspeakers toured the streets before dawn to inform people that Ramadan had started.

U.S. Envoys See Their Jobs Being Politicized

By Christopher Dickey
Washington Post Service

SAN JOSE, Costa Rica — A number of high-level U.S. diplomats in Central America say they are increasingly concerned about what they call the politicization of the Foreign Service and the denigration of its role and objectivity as the Reagan administration has juggled personnel and toughened policy in the region.

The military leader of Honduras wants U.S. troops ready to fight if his country is attacked. Page 3.

In recent conversations in the area, U.S. diplomats have privately criticized the ascendancy of what one called "foreign policy amateurs" in the administration and sniping at the State Department and its diplomats in the field.

Several of the diplomats questioned administration rhetoric and policy decisions in relation to their own reporting. But most said their complaints were based less on objections to the direction of policy than on what Francis J. McNeil, the U.S. ambassador to Costa Rica, described as problems of personalities and seeming threats to the professionalism of the Foreign Service.

Mr. McNeil, the only ambassador appointed by President Jimmy Carter in the region to be retained any significant length of time by President Ronald Reagan, is scheduled to leave his post here this month. Of a range of diplomats interviewed in several Central American countries, he was the only one willing to speak publicly on the subject.

In an interview here Friday, Mr. McNeil denounced what he called "attacks on the Foreign Service" by "the leakers" in Washington. He was referring to news reports surrounding the announcement two weeks ago that Thomas O. Enders, the assistant secretary of state for inter-American affairs, and Deane R. Hinton, the U.S. ambassador to El Salvador, were to be replaced and American policy toughened.

In those reports, senior administration officials were quoted as describing Mr. Reagan's "unhappiness with the execution of U.S. policy" in Central America, and the president's desire to fill jobs with people of unswerving loyalty.

"In the American Foreign Service a lot of people serve at some risk," Mr. McNeil said. "It doesn't do us or the nation much good to be labeling them as 'cookie pushers.' "

In a separate interview with The Dallas Times Herald earlier in the week, Mr. McNeil said, "To suddenly find out that senior people in the White House are charging the Foreign Service with being soft on communism — that's McCarthyism."

One diplomat said the corps is aware that the elected administration is charged with making policy. Nonetheless, the diplomat said, "the people who know the most" about a given country are often "the farthest from power."

Mr. McNeil was one of the architects of the "two-track" plan for El Salvador proposed earlier this year by Mr. Enders. Its objective was to continue strong support for the Salvadoran government and military while appearing to open the door to negotiations with the left.

But William P. Clark, Mr. Reagan's national security adviser, and Jeane J. Kirkpatrick, the U.S. ambassador to the United Nations, reportedly relieved Mr. Enders because they thought the very mention of negotiations in El Salvador was a sign of weakness.

Mr. McNeil said that even though he had been considered at one point for the position of special ambassador to Central America — his name had been offered by Mr. Enders — he told Washington that someone was needed with more "political clout."

That does not appear to be a universal reaction, however. There is little criticism from diplomats here in the region, for instance, of the choices to replace Mr. Enders and Mr. Hinton, even though the new assistant secretary, Langhorne A. Motley, is not a professional diplomat.

Brazil Preparing Aid For Isolated Surinam

By Warren Hoge
New York Times Service

BRASILIA — Brazil, in a break with international efforts to isolate the leftist government of Surinam, is negotiating a trade and aid package with the former Dutch colony.

The Netherlands and the United States cut off aid to Surinam in December, and Colombia and Venezuela later turned down requests for help.

The decisions followed the executions Dec. 9 of 15 of Surinam's most prominent citizens, the closing of independent news organizations, the shuttering of unions, the imposition of a curfew and the banning of gatherings of more than three people. The slain men had formed a group calling on Surinam's military ruler, Lieutenant Colonel Daysi Bouterse, to return to democratic rule and end his alignment with Cuba.

The Brazilians said they were acting in the interests of containing Cuban influence and in response to declarations by Surinamese leaders that they sought a closer association with other South American countries.

"We take those declarations at face value," said Foreign Minister Ramiro Saraiva Guerreiro.

General Danilo Venturini, President João Baptista Figueiredo's troubleshooter, told the Senate that "it would be bad for a neighboring country to become the ally of nations that could bring problems to Brazil."

The oversight committees of the U.S. Congress earlier this year turned aside CIA concern about Cuban influence in Surinam. The agency was seeking approval for a covert operation to overthrow the Surinamese government.

Sources in Brasilia who monitor events in Surinam said there were 40 to 50 Cubans there, operating out of the embassy in the capital, Paramaribo, and out of a large mission in neighboring Guyana.

Surinam, a Dutch-speaking nation with a population of 350,000 of European, African and Asian background, and with hundreds of miles of trackless jungle between its capital and its inland frontiers, has traditionally been aloof from the rest of South America.

On gaining its independence in 1975, it obtained a \$1.5-billion aid program from the Dutch that amounted to \$110 million a year, roughly a fourth of the national budget. This program was suspended by the Netherlands in December. The U.S. suspension halted a \$1.5-million program signed in September.

But Brazil views events such as those that provoked the aid cuts and stood in the way of Venezuelan and Colombian assistance as internal problems.

Shultz Says French Ambiguity on NATO Is 'Aggravating'

By Bernard Gwertzman
New York Times Service

WASHINGTON — Secretary of State George P. Shultz has expressed irritation with the French government, saying that "it is aggravating" to deal with France on allied matters because of ambiguity by the French about their role in the Atlantic alliance.

Mr. Shultz, who rarely criticizes an ally publicly, made the comments Friday night as he flew to Washington from the North Atlantic Treaty Organization meeting in Paris. He said the conclusion of the two-day meeting of NATO foreign ministers was delayed for about three hours because of French "sensitivity" over the wording of the final communiqué.

"You are constantly in the process of saying, 'The allies think such and such,' and then the French say, 'We agree with that, so that's no problem, but that's something the unified command did and we can't touch that,'" Mr. Shultz said. "And then you struggle around with language not to weaken the point, and at the same time, protect the precision of the French view."

France is a charter member of NATO, but pulled out of the military command in the 1960s. Mr. Shultz's comments were an expression of his long-standing irritation with what he called the difficulty of dealing with France on the drafting of allied statements. The problem dates from November, when France withdrew, after initially agreeing, to a joint statement on East-West economic relations to surmount a crisis over the Soviet natural gas pipeline.

Mr. Shultz also stressed, as he did earlier in the week in Paris, that the United States was probing the Russians on a wide range of issues, but that so far there had been not enough progress to warrant any high-level meeting before be sees Foreign Minister Andrei A. Gromyko at the United Nations in the fall.

As to a possible summit meeting between President Ronald Reagan and Yuri V. Andropov, the Soviet leader, Mr. Shultz said some allied ministers he talked with in Paris "think it would be nice just to have a meeting." But he said the majority favor a summit only "if there is something worthwhile to come out of it." That, he said, is "precisely the president's view as well."

On Saturday morning, Mr. Shultz met for two hours with Philip C. Habib, the special Middle East envoy, and other Middle East advisers, before conferring with Elie Salem, the Lebanese foreign minister. The Lebanese are pressing the United States to take an active role in trying to bring about Syria's agreement to withdraw from Lebanon.

Mr. Shultz said Friday night regarding the Middle East, "I can't say there are indications of something about to break." But he said he had heard "more background noise, or whatever, that has to do with problems that Syria sees, that are essentially descriptions of problems that are resolvable through negotiations, essentially between Lebanon and Syria."

"That doesn't mean there is a break in the logjam, however," he added.

Mr. Shultz is scheduled to make a trip soon to the Far East, including attending a meeting in Bangkok of Southeast Asian nations, and then to fly to India and Pakistan for talks. An aide said Mr. Shultz might conclude that trip early next month with stops in the Middle East. But Mr. Shultz said there were now no such plans.

In discussing relations with France, he spoke, as have many of his predecessors, of frustrations in negotiating agreements with the French. Only rarely has any secretary of state discussed the matter as candidly as Mr. Shultz.

A senior aide said that Mr. Shultz regarded the French with "carefully controlled civility." He said the secretary finds it particularly annoying when the French tell him in private that they agree with a position, then insist on something else publicly.

"We recognize that for political reasons, Mitterrand needs to put some distance between themselves and the alliance," the aide said, "but it doesn't mean that we enjoy the process." President François Mitterrand's Socialist government is under attack from the left for allowing France to be drawn too closely into NATO's military plans.

The fact that the NATO meeting was held in Paris after an absence of 17 years was meant to symbolize France's attachment to the alliance. But Foreign Minister Clande Cheysson, at a news conference Friday in Paris, sought to leave the impression that France made no concessions in the final communiqué.

The NATO statement contained a reference to East-West trade. Mr. Shultz said time was spent Friday morning in debating whether the communiqué would include a reference to the allies' seeking alternate sources of natural gas — so that they are not overly dependent on the Soviet pipeline — or just alternate energy sources.

The original draft referred to natural gas, aides said, but the final document, to meet French objections, said that "development of Western energy resources should be encouraged."

"So, it's always something that seems to take a lot of discussion," Mr. Shultz said, "and to some extent, it is aggravating."

Nevertheless, be said, he thought the meeting ended well.

Preliminary Work Said to Start On Putting U.S. Missiles in Europe

By Drew Middleton
New York Times Service

BRUSSELS — Officials at the headquarters of the Atlantic alliance here report that preliminary work on deploying U.S.-made medium-range onclear missiles in Europe is under way.

The officials said the United States expected to deploy 41 missiles this year as part of its effort to persuade the Soviet Union to agree at talks in Geneva to reduce the number of such weapons in Europe.

Sixteen of them are ground-launched cruise missiles that are to be deployed in Britain by the U.S. Air Force. One official said these weapons were oearing the installation stage. They will be placed on four trailers, each the size of a large gasoline tanker.

Another 16 cruise missiles are to be deployed in Sicily this year. The remaining nine missiles to be deployed this year are Pershing-2s. The U.S. Army is to set them up in West Germany.

U.S. and other NATO officials said this first deployment was necessary to obtain what one called "realistic negotiation" by Moscow. The North Atlantic Treaty Organization has decided to deploy 572 intermediate-range missiles if the talks between the Soviet Union and the United States do not result in agreement.

Both political and military sources said they hoped the initial deployments would convince the Soviet Union that the United States and NATO were in earnest about countering the Soviet Union's SS-20 missiles if an agreement is not reached in Geneva.

Other NATO plans were discussed in an interview with General Bernard W. Rogers, supreme allied commander, Europe, who is urging the allies to obtain new conventional weapons to help prevent Soviet attack and make the use of nuclear weapons less likely.

NATO sources said the West is developing and producing weapons that can strike deep behind Soviet lines but that the United States has had limited success in persuading the allies to obtain the weapons.

General Rogers said some allies thought "the United States was pushing this emerging technology to sell additional weapons systems to Europe." The United States, he said, "doesn't care where the weapons come from as long as they are available to reduce enemy follow-on forces in the event of aggression."

Some new systems are nearing deployment. According to General Rogers, one called Pave Mover radar would operate over friendly territory, survey areas far behind enemy lines, track ground targets and send course corrections to friendly missiles.

General Rogers estimated that buying the new weapons would require each ally to increase military spending by 4 percent a year in real terms. He acknowledged that NATO was far from reaching the agreed-upon growth of 3 percent for 1982 and 1983.

The Associated Press

FLYING COLORS — Queen Elizabeth II and Prince Philip of Britain, left, gathered with other members of the royal family to watch a military flyover celebrating the queen's official birthday after the Trooping the Color ceremony Saturday. The Prince and Princess of Wales — he's the one sneezing — are at right.

Report by Tass Assails NATO Communiqué

Reuters

MOSCOW — Support for the deployment of oew U.S. nuclear missiles in West Europe, expressed again at last week's NATO meeting, effectively rules out any prospect of reaching a mutually acceptable accord on curbing medium-range missiles, Tass said Sunday.

In a report from Paris, the Soviet press agency said the Western alliance's final communiqué contained hypocritical assurances about the North Atlantic Treaty Organization's desire for peace.

Tass said the communiqué "expresses support for U.S. plans aimed at further speeding up the unbridled arms race and at achieving military superiority over the USSR and the other Warsaw Treaty member-states."

NATO's refusal to take into account the ouclear systems of Britain and France, Tass said, was a further sign of unwillingness to pursue constructive negotiations at the arms talks in Geneva.

It was the United States, not the Soviet Union, that was pursuing a "nonconstructive, obstructionist line" at all arms control oegotiations, the agency said.

The Tass report, printed in Sunday's edition of Pravda, the Soviet Communist Party newspaper, also said NATO had confirmed that it would continue its "flagrant interference" in Poland and Afghanistan.

But, according to the report, Washington failed to break the resistance of its allies to curtailing trade with the Soviet bloc.

In a separate commentary, Pravda summed up the NATO meeting as a logical follow-up to the Williamsburg summit and said the only ooteworthy point was the place it was held — Paris.

The reference was to the fact that the meeting was being held in the French capital for the first time since Charles de Gaulle ordered NATO's headquarters out of France 17 years ago.

Foot Resigns Labor Post Following Heavy Defeat

(Continued from Page 1)

defeat of its last government in 1979. The poor results in this election plainly represent national repudiation of those leftist policies. But, experts say, it may well be that the deciding votes in the party's cumbersome internal selection process will nevertheless be cast by left-wing Labor unions and local constituency groups.

The second element in the choice will be to find the person best equipped to revitalize the party's image. British media derision of the party's campaign style, and of Mr. Foot's own ramshackle appearance, gave Labor the aura of a loser. With the results of the election providing confirmation of that impression, Labor seems especially in need now of a leader who can revive its spirits.

Measured against these criteria, Mr. Kinnock was rated by most political analysts Sunday as the candidate to beat. He is identified with the left and was a staunch Foot loyalist. But he has come under attack from local activists even further to the left who accuse him of creeping pragmatism. Mr. Kinnock privately acknowledges that ideological compromises will be essential in the next few years if the party's moderates are not to drift further toward the Social Democratic-Liberal alliance or even the Conservatives.

In the election, Labor prevailed only in its strongholds in the depressed industrial north, Scotland and the inner cities, which is not enough if it is to claim power again. It received only 28 percent of the vote, its lowest poll since 1918.

Mr. Kinnock's greatest asset, however, is his vigor and charm. With a husky voice, a warm Welsh working-class accent, and an easy smile, Mr. Kinnock comes across well on television. He played a prominent media role in the last campaign, providing Labor with some of its few upbeat moments. At 41, he is young, but that may be considered a plus with the next election four or five years away.

His critics say Mr. Kinnock is intellectually shallow, lacks any experience in government and devotes too much attention to his public personality. Asked Sunday how we would feel about the leadership, Mr. Kinnock replied, "It would be daunting but in no way frightening."

Mr. Hattersley is rated the second most likely prospect. He has a well-rounded party profile, a good background in government and an acceptable rhetorical style. On the nuclear issue and EC membership, his views are probably too moderate for the party's hard left. And unlike Mr. Kinnock, he does not have a strong base of support in the unions or local party groups who hold 70 percent of the votes in Labor's "electoral college."

Mr. Shore is probably too old, pundits were saying Sunday, as he would be nearing his mid-60s at the time of the next campaign. Moreover, Mr. Shore is still identified with the governing party of the 1960s and 1970s. He acknowledged as much Sunday when he said that the party would be choosing its leadership for the 1990s at its upcoming ballot.

There will also be several dark-horse candidates in the running, although none is given much of a chance.

OAU Votes Western Sahara Plan; Disputes Plague Summit to End

The Associated Press

ADDIS ABABA, Ethiopia — The Organization of African Unity concluded its 19th summit meeting Sunday with a peace plan for the Western Sahara as its major achievement. But the gathering was plagued to the end by ideological and regional disputes.

The Western Sahara agreement came after an overnight session that ended Saturday morning. The agreement called for the first time for direct negotiations between Morocco and the Polisario Front — which is fighting Morocco for cootrol of the territory — as well as for a cease-fire and for a referendum in December.

The issue had oearly caused the summit to collapse.

Early Sunday, the leaders became deadlocked over election of a secretary-general. An unofficial count of about 47 ballots failed to produce a majority for any of the three declared candidates, so the leaders asked Peter Onu of Nigeria to be acting secretary-general until next year's summit.

Mr. Onu has been deputy secretary-general for political affairs for 11 years.

After considerable debate, the leaders agreed that the 20th summit would be held in Conakry, Guinea. Conakry had been chosen two years ago, before the controversy over the Western Sahara. President Ahmed Sékou Touré of Guinea, who opposes the Polisario guerrillas, sent no delegations when the OAU tried twice last year to hold the 19th summit in Libya, a key Polisario backer.

Sources said Polisario supporters maintained that they would boycott a summit in Conakry.

Ethiopia's leader, Lieutenant Colonel Haile Mariam Mengistu, the new chairman of the organization, said in a closing speech: "We have publicly rebuffed our detractors. We have also put to shame the anti-African forces who have been plotting and conspiring" the disintegration of the OAU.

Like other African leaders, Colonel Mengistu, who replaced President Daniel Arap Moi of Kenya as chairman, made much of the fact that the 19th summit was finally able to meet after the cancellations in Tripoli and a two-day delay in getting under way in Addis Ababa.

On the Western Sahara issue, Morocco has refused to recognize the existence of the Polisario, contending that the guerrillas are Libyan-backed "mercenaries" who have infiltrated the former Spanish territory, which borders Morocco, Algeria and Mauritania. Morocco says it should negotiate with the other two countries rather than with the Polisario.

Foreign Minister Mohammed Boucetta of Morocco said his country was willing to go along with the OAU peace plan. He expressed reservations about direct talks with the Polisario, but said Morocco was ready "to explore all avenues."

The summit approved a budget of more than \$20 million, and issued resolutions on the Middle East and South-West Africa (Namibia). The African leaders condemned the "brutal aggression perpetrated by Israel against Lebanon in the summer of 1982 and the indiscriminate massacres of the Lebanese and Palestinian peoples."

On Namibia, the leaders expressed concern about what they termed an attempt to introduce "extraneous elements" into the United Nations plan for Namibian independence. The reference was to demands by the United States and South Africa, which controls the territory, for withdrawal of about 20,000 Cuban troops from Angola.

U.K. Cabinet Reshuffled

(Continued from Page 1)

ish foreign policy is likely to result from Sir Geoffrey's arrival at the Foreign Office. To a degree, Mrs. Thatcher has functioned as her own foreign secretary since the resignation of Lord Carrington after the invasion of the Falkland Islands a year ago, and she is expected to continue to do so.

Although he will continue as deputy prime minister, Mr. Whitelaw's departure from the Home office will make a significant difference.

On a whole range of questions — law and order, penal reform and even permissiveness on television — he was considerably less rigorous than right-wing Conservative back-benchers would have liked. Mr. Brittan will be considerably tougher.

Mrs. Thatcher surprised some observers by oot rewarding Norman Tebbit, one of her favorite cabinet members. Mr. Tebbitt, a former airline pilot from a modest background, is the prototypical spokesman for the prime minister's new working-class Toryism.

Although he had been tipped as the probable new home secretary, he was left in his old job as employment minister, ostensibly because he was the best person to carry through the promised new legislation to curb trade unions.

—R.W. APPLE JR.

U.S. Aide Interviewed On Soviet Television

By Dusko Doder
Washington Post Service

MOSCOW — Deputy Secretary of State Kenneth W. Dam addressed millions of Soviet television viewers on arms control issues Sunday night. It was the first time in recent years that a highly placed U.S. official was interviewed by Soviet television and that his uncensored remarks were relayed in full.

During the six-minute interview, Mr. Dam explained President Ronald Reagan's attitudes and policies on arms control, including his latest proposals on reduction in strategic weapons.

He taped the interview in Washington last Wednesday, responding to questions by Alexander Druzhinin, the Washington correspondent of Soviet television. The interview was shown in full on a prime-time international affairs program.

Observers in Moscow said the decision to air Mr. Dam's interview appeared to have been made in response to Reagan administration complaints about the lack of opportunity for its spokesmen to directly address the Soviet population. By contrast, the administration has argued, various prominent Soviet spokesmen have had wide access to the U.S. oews media.

In pressing for greater access to the Soviet media, the U.S. State Department recently barred Georgi A. Arbatov, a senior Kremlin adviser on American affairs, from speaking to journalists during a recent visit to the United States.

Mr. Dam's interview on Moscow television was followed by an interview with Gene R. LaRocque, a retired admiral who has been active in the anti-nuclear movement in the United States.

Admiral LaRocque, who was asked almost the same questions as Mr. Dam, sharply criticized the Reagan administration's military policies and asserted that Mr. Reagan, while talking about arms control, was pushing a vigorous rearmament program.

The five-minute interview with Admiral LaRocque was followed by eight minutes of coverage of anti-war activities in New York, focusing on a theater called Off the Wall and showing parts of a political satire entitled "Freedom Ain't No Bowl of Cherries."

The satire as well as interviews with members of the cast included charges that the Reagan administration was preparing for war and that a small group of banks and industries involved in the production of weapons were benefiting from Mr. Reagan's program at the expense of the rest of Americans.

The moderator of the program, Alexander Bovin, summed up the program by saying that Mr. Reagan's latest proposals did not show any flexibility and could not constitute the basis for negotiations.

A Soviet newspaper reported Sunday that about 300 Soviet construction workers who walked off their jobs at the site of the new American Embassy in Moscow, returned to their jobs last Wednesday.

The walkout, Moskovsakaya Pravda said, should teach the U.S. Embassy that rules of the host nation should be "strictly and undeviatingly observed."

The workers left their jobs almost three weeks ago because of the use of a machine capable of finding electronic listening devices. The Russian workers said the device, described as an X-ray machine, was a health hazard.

Britain's Welfare State Aided Thatcher

(Continued from Page 1)

most electoral benefit. Her program for selling council houses — apartments in public housing projects — was cited repeatedly during the campaign by working-class voters as a reason for switching from Labor to the Tories. She intends to extend it, to the fury of Labor, which argues that the best houses will be taken by those who can afford them (although 100 percent mortgages are available in many cases), leaving the worst for the poorest people.

But the British public is not unlike the American public in its suspicion of socialism, if by socialism one means the public control of the "commanding heights" of industrial production. The average British voter long ago accepted as essentially correct the social thrust of Labor Party policy as embodied in the welfare state, but he or she is far more skeptical about the virtues of nationalized industries. Mrs. Thatcher's hopes of selling off those she can return to profitability — British Airways is one such target — appear to have lost her relatively few votes during this year's campaign.

The most telling criticism made by Michael Foot and Denis Healey, the Labor leader and his deputy, was that by accepting massive unemployment as the price of controlling inflation, Mrs. Thatcher was not only crippling British industry but frittering away the revenues from Britain's North Sea oil fields, which will begin to decline during her second year in office. They insisted that the money should be used to create jobs; she countered that the only way to create real jobs was to control inflation and boost productivity.

But that argument, however crucial it may be in the long run to the provision of adequate funding for the social services and for education, is not really an argument about the merits of socialism but about the management of the economy.

The next year will almost certainly see a renewal of the long debate within the Labor Party about whether it is a revolutionary or a reforming organization. Although the squabbles during the campaign obscured the details, this year's party manifesto went further in the direction favored by the left wing, headed by Tony Benn, than any in recent memory. It, and the party, failed to convince the voters. Mr. Benn, in fact, lost the seat he had held for 33 years.

Now the question will be whether Labor chooses to talk to its dwindling band of predominantly radical rank-and-file members or decides instead to move to the right in order to appeal to the mass of uncommitted voters it needs to win elections. Will it abandon, for example, the idea of further nationalization? Many think it should do so and concentrate its efforts on strengthening the social welfare systems that are its principal contribution to modern Britain.

Money, Suicide Linked in Japan

Reuters

TOKYO — Money worries drove an increasing number of middle-aged Japanese men to kill themselves last year, according to an official report.

The annual report of the National Police Agency said that 12.8 percent more men in their 50s committed suicide last year than the year before. The number of cases in which money was the motive increased by a third.

The report said a total of 21,288 persons killed themselves last year.

Cocaine Seized in Miami

The Associated Press

MIAMI — U.S. Customs agents reported finding 1,000 pounds (450 kilograms) of cocaine, worth about \$300 million, in flower boxes on a Saturday flight from Medellin, Colombia.

BUSINESS BRIEFS

Li Seen Getting China Presidency

BEIJING (Reuters) — China gave the strongest hint yet Sunday that the veteran economic planner, Li Xiannian, will become the new president by publishing his picture on the front page of the People's Daily.

He was shown with delegates to the current session of the National People's Congress, which is due next week to elect China's first president since the 1960s under a constitution adopted last year. Diplomats said the prominence given to Mr. Li meant there was little doubt he would be elected, as has been widely expected for several weeks.

Mr. Li, 78, is widely respected for questioning Mao's economic policies in the 1950s, although he remained loyal and managed to stay in favor during the 1966-76 Cultural Revolution. He is regarded as a compromise candidate acceptable to both reformist and conservative elements in the leadership.

Gandhi's Party Fails in Kashmir

NEW DELHI (NYT) — A regionally based political group, the National Conference Party, has won a substantial majority in assembly elections in the northern Indian state of Jammu and Kashmir.

The election was regarded as a test of the central government's ability, through Prime Minister Indira Gandhi's Congress-I Party, to strengthen its hand in the Kashmir Valley at a time when regional political movements are cutting into its strength. In the weeks before the election at least three persons were killed and several hundred injured in clashes between the two parties' supporters.

With the results of the June 5 elections made public Saturday for 71 of 76 constituencies statewide, the Congress-I Party had won only one of the 42 seats in the overwhelmingly Moslem Kashmir and 23 of 32 seats in the predominantly Hindu Jammu region. The National Conference, which calls for semi-autonomy for Jammu and Kashmir, had taken 44 of the 71 seats.

100,000 Demonstrate in Madrid

MADRID (Reuters) — About 100,000 people took part in a demonstration Sunday calling for Spain's withdrawal from the North Atlantic Treaty Organization and the removal of U.S. military bases, organizers and police said.

The march and rally were organized by the Communist Party and anti-NATO and anti-nuclear groups. A statement was read calling for the dismantling of U.S. bases, Spain's withdrawal from NATO and an immediate referendum on membership.

Spain joined NATO last year under the former centrist government, but the Socialists froze military integration when they came to power in December and promised a referendum. The Socialists have yet to announce a referendum date, and Foreign Minister Fernando Moran said Saturday that East-West tension over the deployment of nuclear weapons in Europe appeared to rule out the possibility until 1985.

France Tightens Police Discipline

PARIS (Reuters) — The French government Sunday ordered all off-duty policemen confined to quarters oext Thursday, when rightist police unions have called for new mass demonstrations.

On June 3, 2,000 policemen, angered by the deaths of two detectives, demonstrated in Paris, calling for the resignation of the interior, justice and security ministers. Unions have called the Socialist government soft on law and order.

The authorities retaliated by removing the heads of the national and Paris police forces and dismissing two police union leaders. President François Mitterrand said on television that he regarded the protest as seditious and would oot tolerate any challenge to the authority of the state.

Mitterrand Gets Corsica Security

AJACCIO, Corsica (AP) — France has sent 3,000 extra policemen to Corsica for President François Mitterrand's 48-hour visit to the island, which has been plagued by separatist violence in recent years.

The Corsican National Liberation Front said last month that it would refrain from violence during Mr. Mitterrand's visit, which begins Monday. The group said its restraint reflected a hope that France's ruling Socialists would grant independence to the island. As part of their overall decentralization program, the Socialists have given Corsica limited autonomy through a locally elected regional council.

Despite a recent upsurge in bombings, there has been a significant decrease in terrorism this year. Only one person has been injured in the 292 bombings during the first four months of the year, and that was a suspected FLNC member wounded while allegedly planting a bomb.

Solidarity Radio Reported Seized

WARSAW (AP) — Ten persons were arrested in the southern city of Krakow when police raided a Solidarity radio transmitter and three printing shops, Polish television reports.

The report Saturday said the transmitter was taken off the air by the security forces and the man operating it was detained.

In the past, organizers of the clandestine Solidarity radio network have used timing devices to switch transmitters off and on in an effort to protect technicians. This time, however, police seized broadcasting equipment in a string of raids and arrested its leaders and organizers, including Zbigniew Romaszewski, the architect of the venture, the report said.

Ireland Weighs U.K. Vote Results

DUBLIN (Reuters) — The Irish government is expected to review its relations with Britain and Northern Ireland this week following the electoral success of both the Conservative Party and hardline Irish nationalists. The government, which is committed to the peaceful reunification of Ireland, faces a polarization of the Irish issue following Thursday's election.

Prime Minister Margaret Thatcher's landslide victory and the success of unionist parties in Northern Ireland pledged to remaining British, which captured 15 of the province's 17 seats, indicated a hardening of the unionist position.

However, Sinn Fein, the political wing of the guerrilla Irish Republican Army, gained a seat in the British Parliament. The gain by Sinn Fein, which is committed to ending British rule in Northern Ireland, showed a toughening of nationalist opinion as well.

EC Ministers Prepare for Summit

BRUSSELS (Reuters) — Foreign ministers of the European Community will meet Monday in Luxembourg to prepare for Friday's meeting of heads of state and government.

The ministers' main item for discussion is a West German plan to end economic crisis in the EC, mainly by cutting down on farm spending, which is expected to go over the budget this year by up to \$2 billion. Diplomats said the ministers were not expected to reach any decisions but simply to lay the basis for decisions at the summit in Stuttgart.

West Germany's plan, submitted in a paper to EC governments last week, considers the issues of how to meet next year's increased bills and how to resolve the perennial problem of the size of Britain's contribution to the budget.

Accord Reached On Air Pollution

GENEVA (UPI) — Nations of East and West Europe, and the United States and Canada, have agreed to adopt national programs to reduce sulphur emissions causing long-range air pollution. But there was no agreement on a proposal by Finland, Norway and Sweden to reduce the emissions 30 percent by 1993.

Officials said some countries argued that it was better for each government to do what it could without being tied to an exact figure. Agreement was also lacking on a proposal by Austria, West Germany and Switzerland that governments limit the sulphur content of light fuel oil and diesel oil to 0.3 percent.

The accord on national programs came Saturday at a four-day meeting of the executive group monitoring application of the 1979 Convention on Transboundary Air Pollution, which came into force in March after ratification by 27 nations.

For the Record

BELGRADE (AP) — Three more miners died Saturday of injuries they received in Tuesday's methane gas explosion in a coal mine in Aleksinac, bringing the death toll in the disaster to 24, the official press agency, Tanjug, reported.

PARIS (Reuters) — Philippe Augoyard, the French physician freed earlier this month from prison in Afghanistan, arrived Sunday in Paris from Bombay. He was captured in January while on a humanitarian mission in an area controlled by guerrillas opposing the pro-Soviet government.

CORRECTION: An article by a Soviet Communist Party Central Committee official, Nikolai Portugalov, quoted in a Washington Post dispatch from Moscow and published on the front page of the International Herald Tribune on June 11, appeared in the weekly Moscow News, not in the New Times.

Cranston Scores Upset Of Mondale in Poll of Wisconsin Democrats

By Martin Schram
Washington Post Service

MILWAUKEE — In a stunning upset, Senator Alan Cranston of California has defeated Walter F. Mondale, the Democratic presidential front-runner, in a straw poll of delegates to the Wisconsin Democratic Convention, significantly boosting his long-shot candidacy.

Mr. Cranston won Saturday on the nuclear-freeze issue that has become the centerpiece of his campaign. He finished with 38.8 percent of the 2,035 votes cast, compared to 35.7 percent for Mr. Mondale and 21.8 percent for Senator Gary Hart of Colorado.

The defeat startled Mondale strategists and could cause significant damage to the former vice president's candidacy.

Mr. Mondale's advisers had confidently predicted victory in this straw poll that has no official bearing on the delegate selection process for the 1984 national party convention. Anthony S. Earl, the Democratic governor of Wisconsin and a Mondale supporter, had predicted that the former vice president would win 50 percent of the vote.

Mr. Mondale, whose home state is neighboring Minnesota, had the support of most of Wisconsin's prominent Democratic officials. However, Mr. Cranston had set his sights on Wisconsin early, addressing a pro-freeze rally in September, campaigning in the state frequently and attracting endorsements from several of the most liberal activists in the state, which has a long progressive and liberal tradition.

Mr. Mondale's defeat was good news for Senator John Glenn of Ohio, a middle-of-the-road Democrat who has been gaining strongly on Mr. Mondale in national opinion polls and who decided not to appear at the convention rather than risk an embarrassing defeat.

Final poll totals, according to state party officials, were: Mr. Cranston 789 votes; Mr. Mondale 727; Mr. Hart 443; Mr. Glenn 39; Reubin Askew, former governor of Florida, 14; Senator Ernest F. Hollings of South Carolina 1 and undecided 22.

Mr. Hart's forces, who had been locked in a battle with Mr. Cranston to be a liberal alternative to Mr. Mondale, said they felt they had staved off what would have been a devastating defeat with a strong push in the last week that added to their candidate's vote total.

Mr. Cranston proclaimed that his victory "shows that I am one of the top three contenders. I think there are only three of us in the new tier ... Mondale, Glenn, Cranston."

Mr. Cranston said he had not expected to win the straw poll but thought he had an outside chance.

Mr. Mondale appeared stunned and was at times testy as he spoke to reporters after his defeat.

"As you know I've had many many good days in this campaign for president," Mr. Mondale said. "This was not one of them." He said he does not plan any changes in his campaign or his message. "What happened here, I'm not sure," he said.

Mr. Hart said he believes that it is now a four-person race and that he is one of the candidates in that group. He said he does not expect any major breakthroughs in his candidacy until 1984.

The straw poll, he said, shows that "the race is wide open. Front-runnership in the spring of 1983 means nothing."

Kelly Alexander Sr., vice chairman of the National Association for the Advancement of Colored People, in white suit, said the explanation of the group's chairman, Margaret Bush Wilson, for her suspension of the NAACP's executive director, Benjamin L. Hooks, was "sour grapes."

NAACP Again Asks Chairman to Resign

By Sheila Rule
New York Times Service

CHICAGO — By an overwhelming majority, the board of the National Association for the Advancement of Colored People has reaffirmed its call for the resignation of its chairman, Margaret Bush Wilson, and stripped her of all her powers.

The special board meeting Saturday had been called by Mrs. Wilson to discuss her suspension, for eight days in May, of the association's executive director, Benjamin L. Hooks. On May 28, the board had already asked Mrs. Wilson to resign and reaffirmed support of Mr. Hooks. On Saturday, 49 of the 54 members present voted not to accept her explanation, to strip her of her powers and to ask her again to resign.

Mrs. Wilson said in an interview, however, that she had not decided whether to resign and that her plans to attend the association's upcoming convention in New Orleans had not changed. She said she was "not the least bit surprised" by the board's action.

"This is not a conflict between personalities but a profound encounter about how the NAACP is to be managed and run," she said at a luncheon with other board members, after the board rebuked her.

Mr. Hooks said that the board had "seen fit to put the NAACP back on the track and back into the business of civil rights full time." He acknowledged that he was aware that the board "wants me to produce more than we have."

Mr. Hooks and Mrs. Wilson have been in a power struggle since he took over as executive director in 1977. The dispute, which the two had long denied publicly, gained national attention last month after Mrs. Wilson suspended Mr. Hooks.

The most recent controversy is tied to a report that Mrs. Wilson made to the board at a meeting in April. In that report, Mrs. Wilson said it was "in the area of internal management that the need for strengthening is critical."

The board appointed a committee to look into Mrs. Wilson's complaints. But some on the committee, according to several board members, charged that she was contributing to the problems by being too involved in day-to-day activities.

Mr. Hooks succeeded Roy Wilkins. He was chosen after a sizable faction of the board, led by Mrs. Wilson, stripped Mr. Wilkins, then elderly and ill, of much of the nearly absolute authority he had held over daily operations.

Some board members and other officials of the association fear the conflict has further weakened the organization internally at a time when it is struggling to address such issues as declining membership, inadequate staff and funds and management problems. They also say the NAACP's attempts to sharpen its strategy and its position as the leader of the traditionalist civil rights movement have been hurt by the public display of disunity.

Mauroy Arrives in Spain

Reuters

MADRID — Prime Minister Pierre Mauroy of France arrived here Sunday for two days of talks with Spanish leaders that are expected to center on European Community affairs, Central America and terrorism.

President Denies Salvadoran Vote Will Be Delayed

United Press International

SAN SALVADOR — El Salvador's provisional president has announced that elections will be held as scheduled by the end of this year "so the people can choose their destiny."

In an interview Saturday, Alvaro Alfredo Magaña, the provisional president, denied recent reports that elections in El Salvador might be postponed for up to two years.

Mr. Magaña, who is to leave Thursday on a three-day trip to Washington, said his government's desire to achieve peace through democratic methods guarantees the holding of the elections.

Salvadoran officials said last week that elections might be delayed until 1985 because of incomplete preparations, objections to balloting during harvest season and damage caused by rebels.

Mr. Magaña said he did not know the details of a new rebel peace plan presented Thursday in Mexico City but believed the government's peace proposal was sufficient.

Montreal Businessman To Lead Canadian Tories

By Les Whittington
Washington Post Service

OTTAWA — A Montreal corporate president, Brian Mulroney, has captured the leadership of Canada's major opposition party, the Progressive Conservatives, in a narrow victory over Joe Clark, a former prime minister.

Mr. Mulroney, 44, who has never held elected office, won Saturday by amassing 1,584 votes — 54.5 percent — to Mr. Clark's 1,325 votes — 45.5 percent — after nine hours of voting by delegates representing electoral districts across the country.

An advocate of free enterprise, Mr. Mulroney is considered on the right side of Canada's Tory party. He expressed the most pro-United States views of any of the eight candidates who competed for the party leadership, calling for an intensive effort to improve investment and trade ties and defending President Ronald Reagan's actions in Central America.

Mr. Mulroney is the first person from the French-speaking province of Quebec ever chosen to head the party, which traditionally has been strong among English-speaking Canadians, particularly in the western provinces. His election opens the possibility of improved relations between the French and English cultures, whose differences have been a constant source of internal friction.

Most observers think the Progressive Conservatives have a good chance of taking power in the 1980s. A national election is not expected for about a year, but Mr. Mulroney's party is currently far ahead of the Liberal Party of Prime Minister Pierre Elliott Trudeau in public popularity polls.

Mr. Clark was out in front in earlier ballots, but Mr. Mulroney gradually gained strength as lesser candidates dropped out, freeing their supporters to vote for others. Mr. Mulroney won on the fourth ballot.

Mr. Clark, 44, was plagued by a so-called "Anybody But Clark" campaign within his party.

There has been resentment about Mr. Clark's handling of his short-lived administration in 1979. The first leader of a Tory government in Canada in more than a decade, he was defeated by the Liberals in a vote of confidence in the House of Commons after only nine months.

United Press International

Brian Mulroney and his wife, Mila, at the Progressive Conservatives' leadership convention in Ottawa.

Another problem came from rightist elements of the party who objected to Mr. Clark's moderate positions on maintaining social-welfare spending at close to current levels and on compromising with the often-fractious French Canadians in Quebec.

Mr. Clark had requested the election at a party convention in January after a large bloc of delegates voted against his continued leadership.

Mr. Mulroney has been president of the Montreal-based Iron Ore Co. of Canada. He speaks fluent French as well as English and based his campaign on votes from the Conservatives in Quebec. After losing to Mr. Clark in the 1976 leadership contest, he declined to seek a seat as a member of Parliament.

Born into a poor family in a small Quebec town, he became a labor lawyer and became known publicly when he investigated corruption in a government inquiry into the construction industry in Quebec.

In Lima, Latest Obsession Is Talk of a Coup

Economic and Political Trouble Prompts 'Terrible Sense of Impotence'

By Edward Schumacher
New York Times Service

LIMA — In this city of five million people, where politics is an obsession, there is much speculation that the Peruvian military might topple the government of President Fernando Belaúnde Terry, who was elected three years ago.

Most people seem to agree that no such action is imminent. Still, it is a daily newspaper subject, and there are almost daily denials by military leaders and government officials that a coup is being planned. Mr. Belaúnde's previous term as president ended with his overthrow by the military in 1968.

The talk seems to be a result of what one leading Peruvian called a "terrible sense of impotence."

The government, which took office in 1980 after 12 years of military rule, "started with incredible support," according to Julio Cottler, research director at the Institute of Peruvian Studies, a private social studies center.

But, unemployment is high, inflation is running at an annual rate of 150 percent and a leftist guerrilla group called Shining Path is increasing its activities. The government is trying to renegotiate a $12-billion foreign debt.

A flood in the north has lasted six months and has damaged 60 percent of agricultural production, while a yearlong drought in the south has forced thousands of people to migrate to overcrowded cities. The two disasters reportedly have caused a decline of almost 7 percent in the country's gross national product this year.

"Many people now think that the only way to get improvements is with force," Mr. Cottler said.

But Mr. Belaúnde, 70, whose five-year term expires in 1985, has stressed that the fighting is centered in the department of Ayacucho, 200 miles (320 kilometers) southeast of the capital, in an area covering roughly 3 percent of the country's land mass and population.

Two weeks ago, a power blackout, which resulted from bombings by Shining Path, brought much criticism of Mr. Belaúnde for not being tough enough.

The president imposed a 60-day state of emergency, which one newspaper poll said had 55-percent popular support. But it is largely ignored — strikes, political meetings and criticisms of the government continue. Even so, many opposition leaders have the emergency as a nuisance.

Some of the thinking inside the Peruvian military was indicated by a senior military leader, who said in an interview that Peru was "a new country and maybe not ready for democracy."

The leader, who asked not to be identified, said criticism was undermining the government led by Mr. Belaúnde's Popular Action party. Historically, the official said, Peruvian coups have been generated by disgruntled civilians "knocking on the barracks doors." He said some civilians, particularly industrialists, were "already knocking."

Western diplomats say there is no consensus inside the military. The army, they say, has what Peruvians describe as activists, those willing to take a more political role, and constitutionalists, those stressing the professionalism of the services. But the diplomats say they doubt even the activists in the army want to take over the problems faced by the current government.

Mr. Belaúnde has treated the military delicately. Despite the economic crisis, he has maintained high military salaries and weapons purchases. This year, the air force is purchasing 20 Mirage-2000 fighter planes from France for a reported price of $700 million.

The president has also slowly given the military free rein against the guerrillas in Ayacucho. The army reports that deaths have reached 854 this year, nearly half of them in May, when the army took over almost all the fighting.

About 2,000 people accused of being guerrillas are in jail.

Meanwhile, the United States, which largely severed its military aid to Peru during military rule, was reported to be seeking to increase its assistance to the government.

Diplomats said the Reagan administration had included $3 million in arms credits in the supplemental military-aid budget submitted to Congress for the current fiscal year and had budgeted $25 million for the 1984 fiscal year, which begins Oct. 1. The money reportedly is to be used for spare parts and light weapons.

German Protestants Hold Peace Festival

The Associated Press

HANNOVER, West Germany — About 16,000 people, many of them wearing violet scarves symbolizing peace, marched through the streets of Hannover as part of a Protestant church festival that has been dominated by calls for disarmament.

The peace march on Saturday followed a week of events attended by 140,000 people, at which there were repeated calls for disarmament, a reduction of East-West tensions and a reversal of NATO plans to deploy new medium-range missiles in Western Europe later this year. This year for the first time, there was a delegation at the festival from Protestant churches in East Germany, who sent 40 representatives.

Aid to Nations Hurt by El Niño Caught in U.S. Budgetary Currents

By Philip J. Hilts
Washington Post Service

WASHINGTON — El Niño, the Pacific countercurrent that has caused the worst weather in 40 years in many parts of the world, has also whipped up controversy within the Reagan administration.

The Agency for International Development has asked for $100 million for emergency aid to Peru, Equador and Bolivia, which have reportedly suffered $1.3 billion in damage from El Niño. But the Office of Management and Budget is "skeptical" of the proposal in a year of huge deficits, according to a spokesman.

The spokesman suggested that Congress was already too far along in the 1983 budget appropriations process to consider the request for this year.

Twelve feet (3.6 meters) of rain has fallen in some parts of South America, while drought has wiped out two-thirds of the crops in other areas, according to State Department officials. The infant mortality rate and the overall death rate have tripled, the officials said.

Tens of thousands of people are homeless as a result of the worst floods and droughts ever caused by El Niño, Spanish for "the child." This year, the current showed unexpected force.

Trade winds, which result from the circulation of the air over the equator, normally help push back the current. When the trade winds slacken, the onrushing current warms and humidifies the atmosphere, starting a sequence of extreme metreorological events.

AID officials have said that the issue is political as well as humanitarian, because the disasters represent a danger to the elected governments of Peru, Bolivia and Ecuador.

Marshall Brown, AID's deputy assistant administrator for Latin America, said the three countries "are under siege, oot from Marxist guerrillas, but rather from the forces of nature which continue to punish the people and undercut support for the democratically elected governments."

AID recently gave $52.6 million in Food for Peace aid to the three nations, but agency officials said the disaster is of such magnitude that a significant portion of the entire economic output of the countries has been wiped out.

Although it is now the dry season in Peru and Ecuador, rains continue at what a climate analyst at the U.S. National Oceanic and Atmospheric Administration called a "phenomenal" level.

In other areas, mainly in Bolivia and part of Peru, drought has wiped out two-thirds of the crops, according to AID officials who returned last week from the region.

Gromyko Said to Set Afghan Pullout Terms

By Dusko Doder
Washington Post Service

MOSCOW — Andrei A. Gromyko, the Soviet foreign minister, has asserted that Moscow will withdraw its military forces from Afghanistan after receiving guarantees that there will be no outside interference in internal Afghan affairs, according to qualified diplomatic sources.

Mr. Gromyko made the assertion during a long private meeting with Pakistan's foreign minister, Sahabzada Yaqub Khan, in Moscow on Friday. At Mr. Gromyko's suggestion, no aides were present. The talks lasted more than two hours and focused entirely on Afghanistan, the sources said.

Mr. Gromyko is said to have reiterated Soviet charges that the United States and other countries were using Pakistani territory to help insurgents in Afghanistan, which Mr. Yaqub Khan denied.

Mr. Yaqub Khan is said to have told Mr. Gromyko that Moscow could send observers to verify Pakistan's position. He also reportedly told Mr. Gromyko that Pakistan was not able to seal off the Pakistani-Afghan border and he invited the Russians to do so.

Mr. Yaqub Khan also asked Mr. Gromyko about the timing of Soviet troop withdrawals if the required guarantees were to be offered, the sources said. Mr. Yaqub Khan suggested that several aspects should be carried ont simultaneously.

The Pakistani official reportedly assured Mr. Gromyko that Pakistan was sincere in its efforts to find a solution and that it had been burdened by nearly three million Afghan refugees.

But Mr. Yaqub Khan said that Pakistan insisted that Afghanistan be guaranteed its independence and nonaligned status and that the government in Kabul be acceptable to the majority of Afghans.

Observers suggested that the tone of the Soviet remarks was conciliatory and they took note of the fact that Mr. Gromyko did not reject Pakistan's suggestion of simultaneous withdrawal of forces with guarantees of noninterference.

The two men, accompanied by aides, discussed international questions, including the Gulf war. Mr. Gromyko was said to have left a clear impression that Moscow favored Iraq.

Stone, Nicaraguans End Talks; No Progress Seen

Washington Post Service

MANAGUA — The special U.S. envoy to Central America, Richard B. Stone, has ended talks with the Nicaraguan leadership, discussions that skirted rancor but left Washington and Managua still locked in confrontation.

Mr. Stone said as be left Saturday for Guatemala that the main U.S. problem with Nicaragua's revolutionary government stems from Sandinist support for "guerrilla movements in other countries," a clear reference to the Salvadoran civil war that is the focus of his mission.

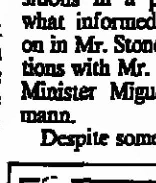
The coordinator of the three-man junta, Daniel Ortega Saavedra, said Friday that Nicaragua's main problem is that the Reagan administration has, by backing anti-government guerrillas, has chosen "the way of war" in an effort to "overthrow the Nicaraguan people or bring them to their knees."

Both sides thus restated their positions in a public reflection of what informed sources said went on in Mr. Stone's private conversations with Mr. Ortega and Foreign Minister Miguel d'Escoto Brockmann.

Despite some advance fears, the sources said, there was no unpleasantness in either meeting although the visit was surrounded by mutual recrimination over the two sides' recent expulsions of diplomats.

The sources added that neither Mr. Stone nor the Sandinists had presented any new ideas for relaxing the tensions that have reached their highest point since the revolutionaries took power in 1979.

On El Salvador, Mr. Stone offered an indication that be might he planning direct talks with the opposition. "I am going to address it," he said of the possibility. Reliable sources said U.S. officials in Mr. Stone's entourage have been in at least indirect contact with the Salvadoran rebels.



Honduran Army Chief Asks U.S. Commitment On Troop Deployment

By Don Oberdorfer
Washington Post Service

WASHINGTON — The chief of the Honduran military, General Gustavo Alvarez Martinez, contends that it might he necessary for the United States to intervene with combat troops in the event of an attack on Honduras growing out of the intensified civil war in Nicaragua.

Ending a three-day visit to Washington made at the invitation of the U.S. Joint Chiefs of Staff, General Alvarez said Friday he would like a commitment from the United States that it will "stand with us in the defending of democracy."

If troops of Nicaragua's leftist Sandinist government should attack, General Alvarez said, his forces "can stand the first push," but then "there might be the necessity for the United States to intervene."

Asked if such intervention would require U.S. troops, he replied: "If there's war, the only thing that will solve a war is troops."

Two months ago the Nicaraguan defense minister, Humberto Ortega Saavedra, said his country might retaliate against Honduran support for rightist rebels, backed by the U.S. Central Intelligence Agency, who are fighting the Sandinists. However, Nicaraguan units capable of such attacks are reported to be far from the border.

The possibility that the border fighting could spread was among the fears that led Congress last December to forbid U.S. aid to the Nicaraguan guerrillas for the purpose of overthrowing the Sandinists "or provoking a military exchange between Nicaragua and Honduras."

Some in Congress question whether the Reagan administration is complying with the law. A ban on further aid to the insurgent forces within Nicaragua is being considered in the House of Representatives. The Reagan administration and Republican leaders are strongly opposed to such a ban, which is supported by many Democrats.

General Alvarez, in a meeting Friday with editors and reporters of The Washington Post, said he does not expect Nicaragua to attack Honduras, adding "that would be the biggest mistake Nicaragua could make."

A senior Defense Department official said the United States, too, considers it unlikely that Nicaragua will attack Honduras because the Sandinists "can't be sure how Congress and the United States would react."

The official, who asked not to be identified, said no definite pledges had been made to General Alvarez about U.S. action in any wider war, but that the general was aware of the 1947 Rio Treaty, under which the United States could take military action to assist a Latin American nation under attack.

The Joint Chiefs, with whom General Alvarez met, do not want to commit U.S. combat units anywhere in Central America at this time. They fear an extensive, unpopular involvement like that in Vietnam.

Partly to avoid such a direct involvement, the military chiefs are encouraging Central American leaders to develop hard-hitting, light-infantry units to fight guerrillas within their countries.

General E.C. Meyer, the U.S. Army chief, disclosed Thursday that the Joint Chiefs are giving "high priority" to a study of ways to make General Alvarez's forces more mobile, including building up to six airstrips in Honduras for troop-carrying aircraft such as the C-130. General Alvarez confirmed Friday that he had requested airstrips, but said he has asked for only four.

General Alvarez, 45, is considered by many to be a more powerful figure in Honduras than the civilian president, Roberto Suazo Córdova.

Reagan Defends Watt on Parks, U.S. Programs

Washington Post Service

WASHINGTON — President Ronald Reagan has called U.S. environmental programs "the strongest in the world" and defended Interior Secretary James G. Watt's record in designating federal wilderness areas and maintaining national parks.

In his weekly radio address Saturday, the president said from Camp David, Maryland, that it was "time to clear the air and straighten the record." He asserted: "I believe in a sound, strong environmental policy that protects the health of our people, and wise stewardship of our nation's natural resources."

Mr. Reagan made only passing reference to the Environmental Protection Agency, the main environmental trouble spot for the administration this year. He concentrated on Interior Department programs and did not mention the most prominent issue there, Mr. Watt's leasing of coal rights on federal lands.

The president has consistently defended Mr. Watt's efforts to increase development of federal lands, and did so again Saturday in backing Mr. Watt's recommendation that 800,000 acres (320,000 hectares) of federally owned land be removed from consideration as wilderness areas.

He also said that Mr. Watt had moved to improve national parks, which Mr. Reagan said "had been allowed to deteriorate to the point that many failed to meet standards for health and safety."

Sikhs Vow To Blockade Rail Lines

The Associated Press

NEW DELHI — Sikh militants decided Sunday to intensify their drive for political and religious concessions in Puojab state by launching a railroad blockade campaign, reports from the area said.

Harchand Singh Loogowal, the president of the Akali Dal, the Sikh party, said the 100,000 members of his organization's "do or die" army would peacefully blockade trains throughout the northern Indian state for six hours on Friday.

The announcement created fears of renewed violence in the predominantly Sikh state, where scores of people have been killed since the Akali Dal started its movement last August.

The militants staged a statewide road blockade campaign on April 4 in which 24 people were reported killed in clashes with police and paramilitary troops.

The Sikh group has a list of 43 demands, including merger of Chandigarh city with Punjab, greater political autonomy for the state, designation of Amritsar as a Sikh holy city with status similar to that of the Vatican and a larger share for Punjab of the waters of interstate rivers.

Prime Minister Indira Gandhi's federal government has accepted most of the religious demands but has said it cannot unilaterally grant some political concessions because they involved dispotes with Punjab's neighboring states.

The government has also agreed to order All-India Radio to broadcast hymns from Amritsar's Golden Temple, the holiest Sikh shrine, but a dispute over the length of the programs has delayed their start.

Mr. Longowal, meanwhile, reportedly turned down a call by Prakash Chand Sethi, India's home affairs minister, for another round of talks in New Delhi on Wednesday.

Herald INTERNATIONAL Tribune
Published With The New York Times and The Washington Post

But It's Only a Start

By changing only a single number, President Reagan has changed the direction of his arms control proposals in a constructive way. He was forced to change by public pressure, and Congress is now likely to reward him with more money to develop and test the MX missile. More such pressure will be needed, however, to alter the nuclear strategy of the United States in ways that provide both maximum security and maximum opportunity for a START treaty with the Soviet Union.

Taking his cue from the bipartisan Scowcroft commission, Mr. Reagan shifted in ways that may ultimately make for a more stable arms competition — away from potentially vulnerable multi-warhead missiles toward smaller, single-warhead weapons that could more surely survive a surprise attack.

He raised his proposed limit on the number of each side's intercontinental missiles from 850 to about 1,200. It sounds paradoxical, but the increase, with a companion limit of 5,000 warheads for each side, would reward the building of smaller, better-dispersed weapons.

In the same spirit the president at least implicitly again rejected the Pentagon's desire to negotiate a reduction in Soviet missile "throw-weight" to the American level. Although the throw-weight of Soviet land missiles is now two and a half times that of America's weapons, such an explicit limit would require disproportionate changes in the Soviet arsenal. Besides, throw-weight is losing its significance as a measure of nuclear prowess; improved accuracy allows smaller warheads to inflict as much damage as large ones.

In other words, so far so good — but not yet good enough. As now amended, the Reagan proposals would require the Russians to reduce their intercontinental land- and sea-based missile force by half, from 2,350 to 1,200. And their big SS-18 and SS-19 land missiles would be cut by two-thirds, from more than 600 to 210. America's missile forces, however, would have to be reduced by only one-fourth, from 1,600 to 1,200. And limits on bombers and cruise missiles, in which the United States leads, would be relegated to the second stage of Mr. Reagan's proposed treaty.

However desirable such a multi-stage outcome may be, it will not be reached in one leap. The third party to these negotiatinns is technology, and it waits fnr no diplomat. The question now is whether the new American target of 1,200 missiles can lead to a compromise and perhaps even be fit into a revision of the unratified SALT-2 treaty within the next year, thus stimulating negotiations for further reductions in later phases.

The last Soviet proposal was for a combined limit of 1,800 missiles and bombers. That would amount to a reduction of more than 25 percent in Soviet forces and no significant U.S. cutback. It would certainly be an improvement on the present, merely voluntary observance of the original SALT-2 terms.

It serves neither security nor arms control to proceed with the MX. But if Congress persists in wanting to dole out MX funds in ways that prod Mr. Reagan toward an arms treaty, a SALT-2 revision is a resonable next objective. If that fails, Congress still has about a year in which to kill the MX and insist on a crash program to deploy a more stable, more effective smaller missile by 1988-90.

Mr. Reagan has made a welcome new start toward START. But it's only a start.

— THE NEW YORK TIMES.

Thatcher's Triumph

Electoral politics is no longer following rules that had seemed for decades to be inherent in the Western industrial democracies. It was an iron law, or so we thought, that what counted was prosperity and above all employment. In both Britain and the United States, things have evidently changed. The experts warn earnestly against drawing parallels between the two countries' politics, but the temptation is irresistible at least in this respect.

In both countries, governments of the right came to power with explicit economic programs that have gone badly askew and sent unemployment to its highest levels since the Depression. But in both countries the opposition remains scattered and confused. In the United States Mr. Reagan and his Republicans still hold the political high ground. In Britain Mrs. Thatcher and her Conservatives have just won a tremendous victory.

In both countries the explanation seems to be that after a long period of mixed signals the voters have been offered a clear and recognizable concept of a national majority. These majorities are very middle-middle-class in tone — Mrs. Thatcher is shedding Tory aristocrats with conspicuous speed — and not very responsive to racial and ethnic anxieties. They appeal to a kind of patriotism that carries echoes of an older nationalism.

One real difference between the two countries' politics is the doctrinaire radicalism that has become entrenched in some of the British labor unions. Its influence in the Labor Party steadily increased in the 1970s, eventually evoking a powerful and sustained national reaction to which Mrs. Thatcher owes much.

But while the scale of Mrs. Thatcher's victory is notable, it is important to observe that her popular vote on Thursday was slightly lower than in her first election four years ago. This time it translated into an astounding majority of 144 seats in Parliament because the opposition was splintered. Whether Thatcherite Conservatism now has a tenure of only one more term or something much longer will depend heavily on the ability of an opposition to pull itself together. The outlook for the Labor Party, now sunk deep in unhinged leftism, is not promising. There is more hope in the alliance of Social Democrats and Liberals; although it won few seats, it came very close to equaling Labor in the popular vote.

Mrs. Thatcher has been rewarded for a firm and coherent view of her country's purposes that a lot of British voters recognized and liked. There is a lesson in that for politicians not only in Britain. She has also tested the proposition that even in a country with a deep historic fear of unemployment, people can be persuaded to accept it when the alternative is high inflation. Mr. Reagan is likely to see a parallel to American politics there.

But perhaps an even greater and more triumphant vote awaits the politician who eventually finds a way to keep inflation down while employment goes up.

— THE WASHINGTON POST.

Other Opinion

London Writers Take Stock

The electoral system itself is in danger of being discredited. The prime minister sits in triumph in Downing Street not on a surge of popular support but as the result of unjust electoral arrangements. Her parliamentary majority has trebled, yet her share of the popular vote has actually diminished. Mrs. Thatcher and her jubilant supporters would be very unwise to shrug off this unintended wrong. Unfairness is dangerous.

— The Sunday Times.

It seems to me that [Mrs. Thatcher] has managed to find a formula that is going to make her extraordinarily hard to beat for a long time. The full formula, or as near as I can get to it, runs as follows: quasi-regal, authoritarian, laissez-faire populism. In short, QUALP.

A politician who has succeeded in turning herself into something like a queen is queering the pitch for her opponents in all sorts of ways. Their attacks can be made to sound disrespectful and unpatriotic. Mrs. Thatcher is very good at conveying this, without saying anything out of the way.

The quasi-regal authority, in virtue of its own governing principle, must stop short of the actual working of the economy. It follows that [it] can in no way be impaired, impugned or besmirched by what may happen in a domain which it is prevented from ever entering.

You can't hold it — and most of you clearly don't hold it — against the queen of laissez-faire if there are 3 million unemployed now. So by what right will you be able to hold it against her if, in four or five years' time, there are 4 or 5 million unemployed?

— Conor Cruise O'Brien in The Observer.

In a way, Mrs. Thatcher's Falklands war was the psychological equivalent of FDR's New Deal, restoring confidence and hope, for which she has been rewarded electorally, as was he, in spite of the fact that her great morale-boosting operation was just as expensively irrelevant to the real business of curing unemployment as was his.

— Peregrine Worsthorne in the Sunday Telegraph.

The country has come a long way. It has seen leadership which does not flinch in the face of hard reality, or knuckle under to pressure from terrorist hunger strikers, Argentinian dictators or anyone else. With her stunning victory, Margaret Thatcher has confirmed that Britain is set on a new and confident course.

— The Sunday Express.

FROM OUR JUNE 13 PAGES, 75 AND 50 YEARS AGO

1908: Rifle Shoots Silently

NEW YORK — Mr. Hiram Maxim has given the first public demonstration of his noiseless firearm with a 32-calibre Winchester rifle, at the headquarters of the American Society for the Prevention of Cruelty to Animals, which seeks a weapon that will kill animals humanely. Mr. Maxim discharged the rifle several times in absolute silence, except for the click of the hammer and the impact of the flat-nosed bullet on the target. His noiseless invention came to him as an inspiration while he was riding in a street-car. When he applied it in practice it worked like a charm. He has been approached unofficially on behalf of the German Government, but his invention, so far, has been patented only in this country.

1933: Pegging of Dollar Sought

LONDON — A Franco-British drive to obtain American adherence to the pegging of the dollar and pound, at least while the World Economic Conference is in session, was unleashed in earnest by the governors and experts of the Bank of England and the Bank of France in triangular currency negotiations [yesterday] with the Federal Reserve and the United States Treasury spokesmen. This first European offensive failed to budge the monetary key-log in the economic jam. Instead, the dollar's rapid fall during the day served to heighten the Franco-British insistence that the pegging of the dollar and pound must precede any tariff reductions and that responsibility for initiative rests with the United States.

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International Herald Tribune, 181 Avenue Charles de Gaulle, 92200 Neuilly-sur-Seine, France. Telephone 747-1265. Telex 612718 (Herald). Cables Herald Paris.
Directeur de la publication: Walter N. Thayer.
Gen. Mgr. Asia: Alain Lecour. 24-34 Hennessy Rd. Hong Kong. Tel. 5-285618. Telex 61170. S.A. au capital de 1.200.000 F. RCS Nanterre B 732021126. Commission Paritaire No. 34231 U.S. subscription: $280 yearly. Second-class postage paid at Long Island City, N.Y. 11101.

The Trouble With Thinking in Arrows

By William Pfaff

BOSTON — A certain militarization of thought is apparent among policy-makers in today's Washington, and among supporters of the foreign policy of the Reagan administration in such intellectual centers as Boston and New York. The U.S. intervention in Central America is defended with arguments deriving their force from strategic calculations which imply preparation for a third world war.

One is told that Central America and the Caribbean dominate vital American communication corridors, and reminded that in the last war far more allied shipping was sunk in the Caribbean than in the North Atlantic. The importance of the Panama Canal is emphasized, as is Mexico's and Venezuela's oil. One might easily conclude that Washington expects the balloon tn go up. Some foreigners, unfamiliar with American political rhetoric, have already done so.

But the truth is that war is not really expected. If Washington seriously expected war, Mr. Reagan, Secretaries George Shultz and Caspar Weinberger, Ambassador Jeane Kirkpatrick and the others of the inner policy circle would conduct themselves with a great deal more urgency than they show today. They talk about Central America in the language of global military strategy and military threat because they want to justify their policy, and the strategic vocabulary is convenient, direct and presumably convincing. Drawing geo-strategic arrows on a map makes complicated things simple.

It is dangerous for exactly that reason. War really is not the issue, and arrows on the Caribbean and Central American maps do not represent Russian fleets, landings, the advance of Soviet divisions upon the Canal and the Mexican oilfields. What is happening in that region is essentially political, not military.

The development of guerrilla movements and insurrections is a political phenomenon. They may certainly be strengthened or accelerated by external support. There must, however, be a political foundation for them to acquire the proportions they have in El Salvador today and that the Sandinist movement possessed when it toppled the government of Anastasio Somoza.

The United States might have learned about the indispensable political base at the Bay of Pigs in 1961, when the landing of a Cuban exile force was supposed to touch off a popular uprising against Fidel Castro's misrule. It did not. Che Guevara learned the same thing in Bolivia in 1967. He discovered, at fatal cost, that to take a column of armed men among even the most miserable peasant population does not necessarily cause them to rise against their rulers. They may simply turn away in apathy and suspicion.

What has been happening in El Salvador and Nicaragua follows from political and communal origins, allowing the Soviets and Cuba to draw an advantage. It does not follow that equivalent political conditions exist in adjoining countries, but that is what thinking with arrows suggests.

The arrows point at Mexico. But Mexico is an important and serious country which went through a profound revolutionary experience between 1910 and 1921 and has developed specific political institutions which have served it for more than half a century. It has a great many problems, but there is no evidence that the mass of Mexicans are looking to Cuba, Nicaragua or the Soviet Union for their solution.

There is considerable reason to think that if armed foreigners were to introduce themselves into southern Mexico with a subversive mission, they would be handed over to the police and locked up in an uncomfortable jail.

The damage done by thinking in arrows is first of all to those who indulge in it. They are the ones who risk coming to believe that the arrows really do mean, in political matters, what they do on the military maps.

They are saying nothing new. As long ago as 1944, in the Partisan Review in New York, a man who might be considered the godfather of the neo-conservative intellectuals of the Reagan administration, James Burnham, wrote in warning about Soviet power flowing "outward, west into Europe, south into the Near East, east into China, already lapping the shores of the Atlantic, the Yellow and China Seas, the Mediterranean and Persian Gulf ... [proceeding] outward by Absorption (the Baltic, Bessarabia, Bukovina, East Poland), Domination (Finland, the Balkans, Mongolia, North China and, tomorrow, Germany), Orienting Influence (Italy, France, Turkey, Iran, Central and South China) ... Appeasement and Infiltration ..."

Well, it was all very dramatic, but it didn't happen. Russia took Eastern Europe with the Soviet army. The rest of those arrows pointed nowhere, so far as the actual extension of Soviet power was concerned. And Eastern Europe today is no asset, but rather a permanent, unextinguishable threat to the security, and conceivably the survival, of the Soviet Union.

One really does wish that Ambassador Kirkpatrick, Norman Podhoretz, Secretary Weinberger and the president himself would learn more about contemporary history.

International Herald Tribune.

In the Eye Of a Debt Hurricane

By Hobart Rowen

WASHINGTON — About the Third World debt problem former Assistant Secretary of State Robert Hormats says, "Right now we may simply be in the eye of the hurricane." His judgment is shared privately by key figures in the multilateral lending institutions.

The seeming calm can be traced to the successful short-term rescue of Mexico last year. That signaled a larger crisis and pushed the Reagan administration, the IMF, the Federal Reserve and other central banks into somewhat panicky action. The sense of urgency has now subsided — yet the longer-term, underlying problems have been pretty well ignored, most recently at the Williamsburg summit.

Some of the larger countries that borrowed from the IMF have already found it necessary to seek easier terms. Some other Latin countries are not considered good enough risks by the commercial banks for new loans; they will not have enough borrowing capacity to sustain economic growth. As Mr. Hormats observes, that could transform a financial problem into a serious developmental and political problem.

The able and sophisticated Mexican minister of finance, Jesús Silva Herzog, admitted to a group of Washington Post editors the other day that after 40 years of positive economic growth prior to the 1982 crisis, fully half of Mexico's population remains in poverty. He warned that the slip backward this year — that is to say, into a period of negative economic growth — cannot go on for more than another year or two without creating a social crisis.

There is a long agenda waiting if the debt bomb is to be defused. In Mexico and other Third World countries the so-called adjustment process must be more than austerity measures. Corruption that has helped skew the distribution of income must be tackled by courageous political leaders. And the commercial banks that once followed the dictum of Citicorp's Walter Wriston that lending to a sovereign state is a no-risk business must not be allowed now to squeeze the less-developed nations, on whom they once lavished loans, for extra interest and fees.

Said Mr. Silva Herzog: "I remember that when we used to come to international monetary conferences we would have a number of invitations for breakfast and lunch and dinner from the international bankers. We were really very much liked. We had to divide ourselves: Why don't you go with this banker, and I'll go with that one, and so on. Let me tell you that at the IMF meeting in Toronto [last September, after news has broken of the Mexican crisis] we had to go have breakfast, lunch and dinner by ourselves."

For the Mexicans, it's no more free lunches. And they pay through the nose for the commerical loans they get. I noted back in March that the commercial banks, by increasing their interest rates and slapping on huge fees for the rescheduling of loans, were extracting an extra $800 million from Mexico in 1983.

In the current issue of Foreign Policy magazine, Karin Lissakers of the Carnegie Endowment quotes a banker, in what she says was an unguarded moment: "That [unmentioned country] is a cash cow for us. We hope they never repay!"

Not only are the banks free to squeeze countries like Mexico for extra cash, but governments in effect have endorsed the loose banking practices that helped bring on the problems in the first place. Proposals to require changes in the bank's foreign lending — a flat limit per country, for example — are shot down by the Fed and other regulators.

A real solution would require not only a leash on greedy private bankers but removal of protectionist barriers so as to open U.S. and European markets to Third World exports. It would involve a rational consolidation of existing international debts over a long term. It would require major banks and their stockholders to "eat" some considerable losses.

Until the debt bomb explodes, none of that is likely to happen.

The Washington Post.

Thatcher: Time Now to Attend to World Affairs

By James Reston

LONDON — A Washington reporter in London for the British elections can hardly avoid comparisons between Prime Minister Thatcher and President Reagan. They are both successful conservative politicians, but their styles of leadership differ considerably.

The British Socialists ran such a bad campaign here that it is easy to minimize just how good Margaret Thatcher was, and what personal qualities accounted for her success.

Unlike President Reagan, she left no doubt that she was running for a second term in office. She was nnt intimidated by her failures, but led the charge against her opposition.

She did not make speeches in the British campaign written by somebody else and recited from invisible prompting screens on television. She was out front day and night answering questions from the television anchorpeople and the call-in questions from the public. She was careful to avoid the harder questions of newspaper reporters but otherwise took on all comers, with not an answer or a hair out of place.

This is some lady and clearly a force to be reckoned with in the coming struggles with the Soviets and within the Western alliance.

She was not the favorite choice as leader of the Conservative Party here. She captured the party. Like Mr. Reagan, she took office with a conviction that the country had gone slack, and that the unions and big business had to shape up.

Also like Mr. Reagan, Mrs. Thatcher tried to impose simplistic solutions in the early days of her administration. She ended up with more than 3 million unemployed.

But unlike Mr. Reagan she stuck to her philosophy and got rid of the cabinet members who disagreed. She came to terms with President Mitterrand of France and Chancellor Kohl of West Germany on the importance of maintaining a nuclear balance of power with the Soviets. She supported the United States and the NATO alliance and the European Community, and on these issues she won the most spectacular British elections of the last half century.

Her position now is quite different from Mr. Reagan's standing in Washington. She is not very popular here personally, but she is respected by all parties, whereas Mr. Reagan is more popular but not quite as respected by his opposition.

The question now is what Mrs. Thatcher will do with her victory. First, unlike Mr. Reagan, she is changing her government. She is reappraising the successes and failures of the last two years and planning for the future.

She has some hopeful things going for her. Mr. Reagan in Washington and Chancellor Kohl in Bonn share her conservative economic philsophy. They are agreed on maintaining a nuclear balance of power in Europe with the Soviets — particularly on deploying cruise and Pershing-2 missiles in Europe beginning in December. On this critical issue they have President Mitterrand of France at their side.

It is not clear what Mrs. Thatcher will do about bringing the European nations together, or how she will respond to Mr. Kohl's mission to Moscow at the end of this month.

Mr. Kohl is going there for his own commercial and political reasons, but also to propose a Reagan-Andropov summit meeting. Mrs. Thatcher apparently has her doubts about the wisdom of this, and so do the French.

In the next couple of weeks, after the pope's visit to Poland, the allies will be reviewing East-West relations and particularly the nuclear weapons negotiations in Geneva.

In recent months Prime Minister Thatcher has been concentrating on domestic political and economic problems. Now that she has won and is reorganizing her cabinet, the chances are that she will pay more attention to world affairs.

There is some talk in official quarters here that she will soon want to discuss the nuclear problem personally with Mr. Reagan. She is free now of domestic politics, with a very large majority in the House of Commons, just at the point when Mr. Reagan is faced with the question of seeking another term in the White House.

Mrs. Thatcher and her aides are interested in this, for while they have agreed on economic questions they have not yet come to terms with Washington about East-West nuclear or political relations, and they have yet to discuss the growing crisis in the Middle East.

The New York Times.

Thatcher: Labor Let Her Waltz In

By Anthony Lewis

BOSTON — The British elections are being treated widely in America as Margaret Thatcher's triumph, but they are that only up to a point. More significantly, they are a defeat for the Labor Party — defeat by self-destruction.

Mrs. Thatcher actually won a smaller share of the popular vote when she led the Conservatives to victory in 1979. She got her landslide in parliamentary seats because the opposition was divided and because the electoral system punishes third parties brutally. In these elections the new alliance of Liberals and Social Democrats was punished. A substantial majority of Britons actually voted against the Conservatives. But they disagreed so among themselves that Mrs. Thatcher waltzed in.

The decline of Labor is a most striking feature of the 1983 elections. Just a few years ago its leaders spoke with confidence of Labor as "the natural party of government." Now it has lost moderates to the new Social Democrats, and the remaining Laborites are split by ideological wars.

Can Labor heal its wounds and again become a credible opposition — one that the great middle ground of the electorate can accept as a potential government? Probably not.

The campaign found little popular support for the left-wing planks of Labor's platform, such as unilateral disarmament, withdrawal from Europe and more socialism at home. Yet the left seems likely to keep its influence on the party in the House of Commons and the local party organizations, so the outlook is for more of the losing ideology.

When Michael Foot leaves the Labor leadership, as he must soon, there will be another left-right struggle for the succession. The strongest candidates look to be Roy Hattersley, a rumbustious and agile moderate, and Neil Kinnock, a political charmer who is down the line for left ideas: unilateral disarmament, banning of private schools, and the rest of the canon. Victory for Mr. Kinnock would push Labor further along the road of sectarian — which is to say, losing — politics.

Labor's extremist course will give life to the alliance despite its fewer than two dozen seats in this Parliament. Winning a quarter of the popular vote in the first general election was a considerable achievement, and the alliance will probably do well at by-elections from here on.

Mrs. Thatcher's victory has been generally interpreted as good news for Ronald Reagan, and that is fair enough. It shows that high unemployment resulting from right-wing economic policy is not necessarily political death. Most Britons have evidently come to accept joblessness as something like a force of nature, and perhaps as a price worth paying for lower inflation. Americans may not be much different.

The other point about the unemployment issue is that it hurt the Conservatives less than expected because voters did not think Labor offered any solution but the old public borrowing and spending that fueled inflation. Coupled with that perception was widespread dislike for trade unions and their disruptive methods, even among union members.

All this offers evident lessons to Democrats in the United States: Stick close to the center, and to each other. Avoid total identification with labor unions and other groups seen as special interests. Do not let the voters believe that your economic policy is an old-fashioned recipe for inflation. In fact, do not come on as yesterday's men, allowing Ronald Reagan to campaign once again as if he were the challenger.

There was one positive factor in the Conservative victory that can give Democrats a bit of cheer: Mrs. Thatcher's competence. On television her command of the facts and of the issues mattered more than her ideology. Nobody would accuse President Reagan of having that quality.

Another other element in the British result was patriotism. Margaret Thatcher was steadfast in a war, and successful. But the Falklands were not El Salvador. The challenge to whoever leads the Democrats in 1984 is to speak convincingly, as a patriot, against a mistaken war.

The New York Times.

Letter: Thanks to a Mischievous Old Map

From John A. Daly in Al Khobar, Saudi Arabia

I HAVE come across a fairly recent International Herald Tribune and am most curious as to the source of a map of Nigeria showing as the principal city of the North-East the town of Geidam, rather than the city of Maiduguri.

My interest in Geidam dates from 1956, when, as an assistant district officer in Her Majesty's Overseas Administrative Service, I was posted there as touring officer of an area covering the western shore of Lake Chad and nearly 150 miles of the northern border of Nigeria. At that time much of this semi-desert country could only be visited on horseback, and treks of two to three weeks were not uncommon. As a matter of historical interest, my humble rank entitled me to 17 head carriers for essential supplies.

Geidam was used by Lord Lugard from about 1907 as a post for the Northern Nigeria Mounted Infantry Regiment, which patrolled the northern border. In 1956 I found on the outskirts of the town the grave of an English sergeant of that regiment who had died in Geidam nearly 50 years previously.

I also found a building, standing alone on the bank of a wet-season river, which had apparently been the officers' mess. It comprised a single very high-ceilinged room with an open veranda all around, set on a base raised five or six feet above the ground. Construction was of locally burnt brick, the roof being of corrugated iron so tough that it was impossible to bend it even with pliers. The ceilings to the center room and the veranda were of pitch pine and still in perfect condition except in one corner where somebody had removed a sheet of the roofing.

During the years between the wars, Geidam's importance as an administrative center declined, although there was a brief flourish of trade in gum arabic which could be collected from trees growing wild in the area and which resulted in the United Africa Company, John Holt and several other houses opening trading stores.

By 1956 Geidam had again lost all but its local significance, and the only European living there apart from myself was a Greek trader who should have been in Graham Greene's "The Heart of the Matter." My official residence was a round mud hut with an imperfectly thatched grass roof. After the first rains of the season I decided to look again at the old officers' mess with its desirably watertight corrugated iron.

The center mess room was entirely taken up by a gigantic anthill, something like 15 feet in diameter and at least as much in height. I had this removed (how simple just to write those words!) and I renovated the house, even installing a bath which I scrounged from the Public Works Department scrapyard in Maiduguri, much to the annoyance of the ducks whose home it had been for quite a few years.

The renovation almost complete, news came of an impending visit by Sir James Robertson, the then governor general of Nigeria. My superior officers were in a turmoil.

Why was the governor general visiting an obscure place like Geidam? The answer apparently lay in an old map, although hardly the one published in your excellent journal.

Thus it came about that the first people to stay again in the house were Sir James and Lady Robertson. The visit was wildly successful, and the town put on a display of horse riding and dancing which is unlikely ever to be seen again.

The visit was marred only by Lady Robertson on her first evening sticking to my newly painted bath; by Sir James on dismounting from his horse at the celebrations the following day splitting wide open the seat of his pants, which incidentally he totally ignored, carrying on as though it were perfectly normal for a governor general to walk about with his shirttail flapping in the breeze; and lastly again by the unfortunate Lady Robertson. Finding the night hot and stuffy and deciding to move outside with a light sheet and pillow to the coolness of the veranda, she was awoken by a kick in the ribs from a local policeman demanding that she get back to the town. Fortunately he was barefoot.

I could tell many more stories of Geidam, of the kindness of the people, of the unbelievable reception of my own mother the following year by Yerima Mustafa, the local representative of the Shehu of Bornu, and of the diverting archival instruction dated 1940 to frustrate any Vichy attempt, should they choose to cross the border from Niger, to capture the district officer's cash reserve. The plan called for loading camels with holed coinage bags and driving the animals furiously across the desert. What a bureau-shaking audit report that would have made.

Thus, Sir, may I again ask. What was the source of the map in your 16th March edition?

Editor's Note: The supplier was United Press International. In this case, too, the answer apparently lay in an old map.

More letters, Page 5.

Influential Diplomat Leaves Bonn for Home

Swedish 'Insider' Helped Arrange First West German-Soviet Talks

By James M. Markham

New York Times Service

BONN — The comings and goings of ambassadors are not usually of much moment in Bonn. But a few days ago Sven Backlund left the post he had occupied at the Swedish Embassy for more than a decade, depriving West Germany's capital of one of its wittiest aphorists and one of its true insiders.

"You can amuse yourself with a specialty; you can amuse yourself with stamps, with silver," the lanky Swede said. "I amused myself in knowing things."

"And then it tends to become an obligation, because if people think you are an expert, you have to have the right answers," he added, finishing with his customary prolonged chuckle.

It was a vintage bit of self-effacement from a diplomat who was credited with discreetly seeding the first Soviet-West German contacts that led to the so-called Ostpolitik of Willy Brandt's chancellorship.

Mr. Backlund was an envoy who remained on intimate terms with the leadership of the West German Social Democratic Party and who also was well-equipped to explain the intricacies of the United States to influential Germans. He also played a mean game of snooker in his manorial residence by the Rhine.

The timing of his leave-taking, in his 66th year, came three months after the curtain was rung down on the Social Democrats' 13-year run in power in West Germany.

The West Germans, he said, seem so at ease with their place in the world that "the only thing that can disturb them is boredom."

Mr. Brandt saluted Mr. Backlund as a rare ambassador "who knew the Federal Republic of Germany better than many German politicians."

When the two first became friends in West Berlin in 1964, Mr. Brandt was the city's Social Democratic mayor and Mr. Backlund was the Swedish consul general.

As a Swede, Mr. Backlund had a natural entrée with Mr. Brandt and Herbert Wehner, deputy chairman of the Social Democratic Party, both of whom took refuge from the Nazis in neutral Sweden.

"After the war, when you had to sort of build up German democracy," Mr. Backlund said, "you needed one party to the right and one party to the left."

He said the contacts that the West German Social Democrats had with the Swedes were important "because the rest of the world was in a Cold War period and the Social Democrats didn't fit in."

"They took a great deal from us in the beginning," he added.

In 1966, Mr. Backlund served as the host at the first secret meetings between Mr. Brandt, then mayor of West Berlin, and Pyotr A. Abrasimov, the Soviet ambassador to East Germany.

"Some time, historically, the Russians and the Germans had to contact each other," Mr. Backlund said. "On both sides it was very difficult. The Germans had killed too many Russians, and the Russians had taken too big a chunk of Germany."

According to Arnulf Baring, a historian, the Swedish envoy played "a very important role" in the fledgling steps of the West German opening to Eastern Europe.

At one point, Mr. Baring said, Mr. Abrasimov was telling Mr. Brandt — through the Swedish diplomat — that if Mr. Brandt could come to power in Bonn, hard-liners in Moscow might be convinced that a new relationship between the two countries was imaginable. Mr. Brandt became chancellor in 1969, and good-will treaties were signed between West Germany and the Soviet Union and Poland in 1970.

Mr. Backlund tends to discount the significance of his go-between role, and be refuses to talk about helping East Germans to freedom in the West. "I helped a few," he said. "Everybody did."

Friends traded Mr. Backlund's aphorisms. One American reporter swears it was the Swede who first said Helmut Schmidt, the pragmatic middle-of-the-road Social Democrat, was "the best Christian Democratic chancellor there ever was."

The Social Democratic Party in Sweden, the ambassador liked to say, has two wings: one whose members complain about their rich aunts in Stockholm, the other whose members have no rich aunts in Stockholm.

Seven years in the United States — as a diplomat explaining his country's neutrality policy in World War II and later as press attaché — left Mr. Backlund with a feeling for American strengths and idiosyncrasies.

As be headed home the ambassador jokingly summed himself up as "an all-round dilettante" who had kept some specifically Swedish goals in mind during his career.

"One reason for being active," he said, "is that Sweden is not in NATO, not a member of the community, and we are still a part of Europe. There is a job to be done there — that we are not forgotten."

British Polaris Tested

The Associated Press

CAPE CANAVERAL, Florida — Two Polaris missiles were fired successfully Saturday from the HMS Revenge, one of Britain's four Polaris-class submarines, in the vessel's second series of test launches in the past week.

The Associated Press

The sky darkened over the Buddhist temple at Borobudur in central Java during the solar eclipse.

Eclipse of Sun Occurs in Java; 400 Scientists Join Observation

United Press International

JAKARTA — A rare total eclipse of the sun has taken place over Indonesia.

Saturday morning's eclipse, which lasted more than five minutes, covered a zone 40 miles (64 kilometers) wide and 2,000 miles long in the vicinity of Java. Observers included about 400 scientists from 22 countries.

Two small earthquakes were recorded in central and eastern Java during the eclipse, the Indonesian Meteorology Institute reported. No injuries or damage was reported.

"One of our worst fears was the possibility of heavy clouds obscuring the event," said Dr. Morris Aizeman of the National Science Foundation of the United States. Skies, however, were clear.

Many animals, whose behavior was monitored by zoologists, reportedly went to sleep as the sky took on a dusk-like appearance.

Soviet to Return Old Monastery To Orthodox Church for Offices

Reuters

MOSCOW — The Soviet government will give Moscow's oldest monastery back to the Orthodox Church for use as administrative headquarters, Tass has reported.

The news agency said Saturday that the Danilovsky Monastery, built in 1272, would be restored and offices built in it. The monastery, just south of central Moscow, was seized by the authorities after the 1917 revolution. It has long been closed to the public and used for storage by a nearby factory.

The decision to return it to the Moscow patriarchate reflected increasingly warm relations between the Communist leadership and the Orthodox Church. Senior churchmen have won Kremlin approval by actively supporting Soviet foreign policy goals and campaigning for nuclear disarmament.

Tass said Patriarch Pimen, head of the Orthodox Church, had sent a letter to Prime Minister Nikolai A. Tikhonov thanking him for the decision to return the monastery and saying that it "testifies to the benevolent attitude of the Soviet state to the church."

Tass did not make clear when the patriarchate, which now has offices in several buildings, could move into its new headquarters.

U.S. Pioneer-10 to Leave Solar System

By Thomas O'Toole

Washington Post Service

WASHINGTON — The small silver and gold spacecraft called Pioneer-10, which left Earth 11 years ago, will leave the solar system on Monday, becoming the first man-made spacecraft that has journeyed beyond the planets.

At 1 P.M. Greenwich Mean Time on Monday, Pioneer-10 will move beyond the orbit of the planet Neptune, 2.8 billion miles (4.5 billion kilometers) from Earth, and pass into the void that is no longer interplanetary space.

Although Pluto normally is regarded as the outermost of the nine planets that circle the sun, its eccentric orbit carried it inside Neptune's more circular orbit three years ago.

Moving through airless and frictionless space, where the chance of collision with another body is so remote that it is beyond imagination, Pioneer-10 could continue its journey for infinity. Scientists have estimated Pioneer's shortest possible lifetime at 2 billion years and then only if it encounters a shower of cosmic dust or cosmic rays that so corrode its 570-pound (1,254-kilogram) aluminum frame that it begins to break up.

Space scientists have charted Pioneer's course for the next 800,000 years and calculate that its first encounter with a star will occur in 10,507 years, when it passes the small, red Barnard's Star at a distance of 3.8 light years.

Among the largest stars it will encounter is Altair, which is 10 times brighter than the sun. Pioneer will pass Altair in about 800,000 years. The spacecraft's nearest encounter will be with a "flare" star named Ross-248, which it will pass in 32,000 years at a distance of only 3.2 light years.

By the time Pioneer-10 makes its first stellar encounter, it will have long since lost radio communication with Earth. Its 8-watt radio signal is so weak now that, by the time the transmission reaches Earth, it measures one-trillionth of a watt. Most scientists think that they will no longer be able to hear Pioneer's signal in about eight years.

Scientists have been surprised at hearing Pioneer's signal for so long. Not only has its radio transmitter never failed, but its four radioisotope generators that produce power from atomic heat are still generating enough electricity to run most of its instruments and power its radio.

Never was a spacecraft more aptly named than Pioneer 10. It was the first spacecraft to survive the asteroid belt between Mars and Jupiter and first to survive Jupiter's searing radiation belts that are millions of times stronger than the Earth's Van Allen Belt.

Soviet Union Replaces Envoy to E. Germany

The Associated Press

MOSCOW — The Soviet Union named a new ambassador to East Germany on Sunday to replace Piotr A. Abrasimov, a long-time diplomat who was recalled to Moscow last month.

Tass said Vyacheslav I. Kochemasov, 64, a former diplomat with some experience in East Germany, would replace Mr. Abrasimov, 71.

Inquiry on Dioxin Contamination In U.S. Expands to Add 4 States

New York Times Service

NEW YORK — Officials investigating sites in New Jersey where the toxic chemical waste dioxin might be present in dangerous concentrations have expanded their search to 19 chemical manufacturing sites in New York state outside New York City, Pennsylvania, Maryland and West Virginia.

Testing is to continue at the closed Diamond Shamrock chemical plant in Newark, New Jersey, where U.S. Environmental Protection Agency inspectors first found high levels of dioxin in soil samples, and at nine other New Jersey sites.

Officials said more study of company records and further tests at other sites would be needed before the widespread presence of dioxin could be confirmed.

The Eastern companies were among 91 listed in a 1980 EPA report as pesticide and chemical producers around the country that might have caused contamination by dioxin, which the EPA calls "the most acutely toxic compound made by man."

Dioxin concentrations of up to 1,200 parts per billion were found at the Newark site, with several of the samplings having 500 parts per billion. A safe concentration is less than one part per billion.

Czechs Quit Psychiatric Association

By Bryce Nelson

New York Times Service

NEW YORK — The Czechoslovak Psychiatric Society has joined its counterpart in the Soviet Union in withdrawing from the World Psychiatric Association.

The Czechoslovak action — disclosed recently to member associations — coupled with a similar Soviet step announced in February, has prompted some association leaders to question whether the group's ability to carry out its functions has been damaged.

The Soviet and Czechoslovak groups both asserted that the association had been turned into a political, rather than a scientific, forum by American psychiatrists.

Bot psychiatrists in the United States and several other Western countries — particularly Britain, France and Denmark — say the Soviet and Czechoslovak withdrawals stem from Western efforts to focus attention on what the West calls the continued use of Soviet psychiatry in stifling political dissent.

Dr. Harold M. Visotsky, the chairman of the American Psychiatric Association's International Committee on the Abuse of Psychiatry and Psychiatrists, said he felt it was necessary to examine Soviet misuse of psychiatry, even if it led to the withdrawal of some nations from the world body.

2 U.S. Presbyterian Groups Unite

Washington Post Service

ATLANTA — The Presbyterian church, which split over slavery during the Civil War, has been reunited, making it the fourth largest Protestant denomination in the United States.

Ending nearly 50 years of negotiations, 988 church commissioners voted Friday to merge the 823,143-member Presbyterian Church in the United States, the southern body, and the 2,351,119-member United Presbyterian Church in the U.S.A., the northern church. They formed the Presbyterian Church (U.S.A.).

On Saturday, the church elected as moderator the Rev. John Randolph Taylor, 54, of Charlotte, North Carolina.

Starting Monday, the commissioners face a variety of secular and religious issues, including U.S. involvement in Central America, abortion and South Africa.

The split in Presbyterianism occurred in 1861. Southern churches were asked to pledge "unabated loyalty" to the federal government. They refused and formed the Presbyterian Church in the Confederate States of America.

The decision Friday was expected. Both groups overwhelmingly approved the merger plan a year ago. Still, officials expect that about 40 of the southern church's 8,975 congregations may withdraw as a result of the merger.

The vote in the southern church appeared to be unanimous. In the northern assembly, at least one dissenter said she was uneasy about provisions for affirmative action in the merged church.

Seven small U.S. Presbyterian denominations remain split, mostly because of theology.

India Industrialist G.D. Birla Dies

The Associated Press

NEW DELHI — Ghanshyan Das Birla, 89, founder of one of India's leading industrial families and a backer of Mohandas K. Gandhi's independence movement, died Saturday during a visit to London, relatives said.

Mr. Birla, widely regarded as India's wealthiest man, was taking his morning walk in London when he became ill. He was taken to a hospital, where he was pronounced dead, The Hindustan Times newspaper, owned by the house of Birla, reported.

K.K. Birla, chairman of the newspaper, said his father would be cremated Monday in London and the ashes returned to India.

The president of India, Zail Singh, in a message to the family, described Mr. Birla as "one of the seniormost and pioneering industrialists ... a great patriot and devout nationalist who contributed immensely during the freedom struggle under Mahatma Gandhi."

Mr. Birla was the founder and head of the house of Birla, whose interests range from textiles and publishing to cement, tea, paper, foods, engineering and electronics. He was regarded as an important financier of Gandhi's movement for independence from Britain. Gandhi frequently received visitors at the Birla house, where be was staying when be was assassinated in 1948.

Mr. Birla had gone to London on June 1. At 89, he remained engaged in numerous business activities, and "it could be properly be said that he died in harness," The Hindustan Times said.

■ *Other deaths:*

L.P. (Red) Dawson, 76, former head football coach at Tulane University of Louisiana and Pittsburgh University, Friday in Ocala, Florida.

Jenny Serruys Bradley, 97, the Belgian-born, Paris-based literary agent instrumental in the U.S. publication of French writers such as André Gide, André Malraux and Antoine de Saint-Exupéry, June 3 in Cap d'Antibes, France.

Charmion von Wiegand, about 85, an abstract artist who translated the writings of the Dutch artist Mondrian and wrote about him, Thursday in New York.

LETTERS TO THE EDITOR

Communist Strength

Regarding "Intervention in Latin America: A Pessimist's View" (IHT, May 21) by William Pfaff:

The criticized view that Russians and Cubans possess and can lend out to their clients "a degree of political military potency no one else commands" is neither frightening nor pessimistic, but, unfortunately, merely realistic.

The Russians and the Cubans do not have a Congress, a critical press, a public opinion to worry about, and hence support for their clients can be total, sustained and practically unlimited, even if it means hardships, shortages and other misery afflicting their own people. U.S. support has in all cases been halfhearted, qualified, conditional, unsustained and abandoned halfway through.

What was demonstrated 10 years ago in Saigon is not what is being projected by the warped minds of some writers, but simply this: If a nation does not have a will to prevail, or in the face of political and media opposition is unable to muster that will, the results will be fatal to the country in which it intervenes, and disastrous to itself.

B. EINHORN.
Benidorm, Spain.

Liberals Can Hope

The election result in Britain is a clear victory for Liberal forces. It is a breakthrough for the Alliance, which has attracted the support of more than a quarter of the electorate in the first elections in which it presented itself less than 18 months after it was formed.

This must be considered as a sign that there is a hope that the centrist forces, based on the Liberals and the Social Democrats, will form the government in Great Britain in the not too distant future.

WILLY DE CLERCQ,
President, European Liberals and Democrats.
Brussels.

A General Spared

Regarding "Court in East Berlin Sentences SS Officer to Life for Massacres" (IHT, June 8):

It is satisfying to note that at least one man was judged for the massacre of innocents at Oradour-sur-Glane. It is only a pity that his commanding officer, General Heinrich Lammerding, was allowed to die peacefully in bed and this despite the fact that his whereabouts had been known since early 1968 to the French Consulate in Düsseldorf, where he lived and operated a successful painting business under his own name.

It is correct, unfortunately, that there is no extradition treaty between West Germany and France. But this did not stop the French from kidnapping their own nationals during the Algerian war days to bring them to justice in France.

S.C. SCHIFF.
Paris.

Vanishing Forest

Regarding "Gloomy Report on Future Called 'Dead Wrong'" (IHT, May 31) by Philip J. Hilts:

The threat to tropical rain forests is real and immediate. The consequences for mankind of deforestation in the tropics are of the utmost gravity. These facts are recognized by the preponderance of ecologists who have studied the subject firsthand, and are endorsed by the World Wildlife Fund and the International Union for Conservation of Nature and Natural Resources. Herman Kahn, Julian Simon and the authors of "Global 2,000 Revisited" are themselves "dead wrong" in suggesting that we have nothing to worry about.

Even government reports to the United Nations acknowledge that tropical forests are disappearing at the rate of 76,000 square kilometers a year. We believe independent scientific surveys that say the combination of destruction and degradation of these forests is closer to 200,000 square kilometers.

With them are vanishing the flora and fauna they shelter — much of it unstudied — and which is of irreplaceable value to humanity.

One may debate whether it will take 50, 100 or 150 years for the tropical forests to go at present rates. The thing to remember is that if they go they are gone forever. We still can prevent this catastrophe, but not if we are lulled into the complacency of Kahn and his co-revisionists.

CHARLES de HAES,
Director General.
World Wildlife Fund,
Gland, Switzerland.

The BBC's People

Regarding "The New (Short) Wave of Travelers" (IHT, April 6):

Clearly, establishing worldwide listening figures and trends is a hazardous business at the best of times. But after more than 35 years of international survey research experience (often in conjunction with Voice of America, Deutsche Welle and Radio Netherlands), the BBC for one is confident that the accuracy of its audience data is as high as it can be in the circumstances.

This evidence indicates that the BBC has a regular (listening at least once a week) audience of some 100 million adults (excluding China) for its international broadcasts in English and 36 other languages. Similarly, the VOA estimates its audience at 100 million adults, but includes in this a figure for China which we do not attempt. No worldwide estimates have been published for either Deutsche Welle or Radio Netherlands, but, except in a few areas, their audiences are much smaller.

Thus, the assertion that "the most listened-to station in the world is Deutsche Welle" is contrary to all evidence and clearly untrue, and devalues the research work being carried out by the broadcasters concerned.

GRAHAM MYTTON.
British Broadcasting Corp,
London.

In-Flight Smoking

As a frequent air traveler — I have crossed the Atlantic 78 times — and as a Canadian citizen who has flown on most major airlines, I feel particularly strongly about the recent fire accident that killed 23 people on an Air Canada DC-9 from Dallas to Toronto. Considering what I have observed during long and short flights alike, it is surprising that such an accident has not occurred before, particularly in view of the flammability of aircraft interiors.

Shortly after boarding aircraft, or after takeoff, we are told that smoking is not permitted in the aisles or the lavatories. Yet on almost every flight I have witnessed passengers disobeying these instructions without provoking the slightest concern among the cabin personnel, who act only after I point out to them that somebody is walking or going to the lavatory with a lighted cigarette.

That is not all. Cabin personnel very seldom ask passengers who smoke in the non-smoking sections to put out their cigarettes. Perhaps the Air Canada accident will lead airlines to better select and train their cabin personnel. Even that, though, will not restore the 23 victims to their families.

G.R. HASTINGS.
Brussels.

The Massacres of Armenians: A Horror Story Lasting Decades

It is assuredly not too late to return to "Armenian Question: The Roots of Terror" *(IHT, March 10)*, since the article contains an assertion of shocking falsehood.

I read, "In fact, Ottomans and Armenians got on so well together" and "this relationship lasted until the bloody events in eastern Turkey during World War I.... " The rest of the article confirms that, according to the writer, the only massacres of Armenians by the Turks took place in 1915.

Whether they killed 1,500,000 Armenians or slightly fewer — or, as appears to be historically established, more than half of the 2,100,000 Armenians living in Turkey before the 1915 massacres — is beside the point. The important question, the terrible truth, summarized in the extreme, is as follows:

The first large-scale massacres took place in the period after the Cyprus convention of June 4, 1878, in which Disraeli, then the British prime minister, promised the Turks that he would persuade the Russians to evacuate the occupied territories of the Ottoman Empire before the promised reforms (favorable to the Armenians) were carried out. In return for the services rendered to Turkey by Disraeli and Britain, Cyprus was to be handed over to the British.

The consequence of this was the massacre of hundreds of thousands of Armenians between 1878 and the end of the century, when the genocide took on a new dimension with the 1894-1896 massacres. The pretext was that in 1894 some Armenians had refused to pay a tax. In 1896 the faintheartedness of Lord Salisbury was to blame. Further massacres took place, mainly in 1897, 1899, 1901 and 1904.

Partially Armenian by descent, I was born in France of a French mother, have always lived in France, and remain outside any political movement. I totally disapprove of all forms of terrorism, and harbor no feeling of resentment toward the Turks of today, nor toward the fellow countrymen or co-religionists of the late Disraeli.

But 1½ million massacred people demand the truth. Nothing more.

M.D. INDJOUDJIAN.
Paris.

Letters intended for publication should be addressed to the editor and contain the writer's signature, name and address. Brief letters receive priority, and letters may be abridged. We cannot acknowledge all letters, but we value the views of the readers who submit them.

International Bond Prices — Week of June 9

Provided by White Weld Securities, London, Tel.: 623 1277; a Division of Financiere Credit Suisse - First Boston

RECENT ISSUES

Amt	Security	Str/Conv	Issue Pr.	Mid Pr.	Yield
$ 100	Security Pacific 10 1/2 % 1988 Jun	s	100	98	11.57
$ 100	Ic Industries Cu/w 8 7/8 % 1991 Jun	s	100	99	9.05
$ 100	Sumitomo Finance 10 7/8 % 1990 Jun	s	99 1/2	98	11.73
dm 100	Air Canada 7 3/4 % 1993 Jun	s	99 1/2	98 1/2	7.59
dm 150	Renault 8 % 1990 Jun	s	100	95 1/2	8.67
dm 100	Anas Azien Naz Autos 8 1/4 % 1988 Jun	s	100	96 1/4	8.60
$ 40	Pirelli Intl Cu/w 9 3/4 % 1998 Jun	s	100	98	7.23
$ 100	Long Term Credit Bk 10 3/4 % 1990 Jun	s	100	97	11.28
$ 50	Great Western 28.30 7 1/2 % 1998 Jun	c	100	91	
$ 100	Honda Motor Co Ltd 5 1/4 % 1998 Feb	c	100	97 1/2	
dm 100	Ste Develop Reg Sdr 7 7/8 % 1993 Jun	s	100	96 1/2	8.67
$ 70	Escom 11 1/2 % 1988 Jun	s	99 1/2	91	12.22
$ 100	Province Of Manitoba 10 1/2 % 1990 Jun	s	100	97 1/4	11.07
$ 200	Credit Foncier Ex/w 10 7/8 % 1991 May	s	100	93 3/4	12.13
dm 120	Kobe City 7 % 1993 Jun	s	99 1/2	97	7.43
$ 50	Electrolux 10 1/2 % 1990 Jun	s	100	98	11.34
$ 10	Manufact Hanover 20 1/4 % 1988 May	s	100	97	11.05
$ 100	Manufact Hanover 10 1/4 % 1990 May	s	100	96 3/4	11.34
$ 150	Ontario Hydro 15 1/4 % 1998 May	s	100	96 1/2	10.90
$ 90	Secom Co Ltd 5 % 1998 Nov	c	100	112	
$ 100	Swiss Bank Corp Cu/w 8 1/4 % 1993 Jan	s	100	96	6.52
$ 100	Swiss Bank Corp Ex/w 8 1/4 % 1993 Jan	s	100	77 1/2	9.84
$ 80	Weyerhaeuser Capital 10 1/2 % 1990 May	s	100	98 1/2	10.83
$ 200	Eib Europ Invest Bank 96 1/2 % 1993 May	s	99 1/2	98 1/2	11.34
dm 150	Finland 7 1/2 % 1988 May	s	99 3/4	98 1/2	7.87
$ 100	Deutsche Bank Cu/w 6 1/4 % 1991 May	s	100	100 1/2	6.34
$ 100	Deutsche Bank Ex/w 5 1/4 % 1991 May	s	100	75 1/2	10.84
$ 50	Den Norske Creditbank 11 1/4 % 1993 May	s	100	80 3/4	11.99
$ 150	Credit Suisse Cu/w 7 % 1990 Jun	s	100	99	2.34
$ 150	Credit Suisse Ex/w 7 % 1990 Jun	s	100	91 3/4	10.70

STRAIGHT BONDS
All Currencies Except DM

Amt	Security	%	Middle Mat	Price	Yield Ave Mat	Yield Life	Yield Curr
	AUSTRALIA						
$ 120	Australia	8 3/4	'93 Oct	99 1/2	9.91		8.29
$ 100	Australia	7 1/2	'86 Sep	99	10.15		7.73
$ 125	Australia	8 1/4	'89 Dec	97 3/4	9.92		8.44
$ 95	Australia	5 1/2	'85 May	90	11.42	12.58	4.17

HIGHEST YIELDS
to Average Life Below 5 Years

HIGHEST YIELDS
to Average Life Above 5 Years

HIGHEST CURRENT YIELDS

DM STRAIGHT BONDS

(Continued on Page 18)

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The Case fo

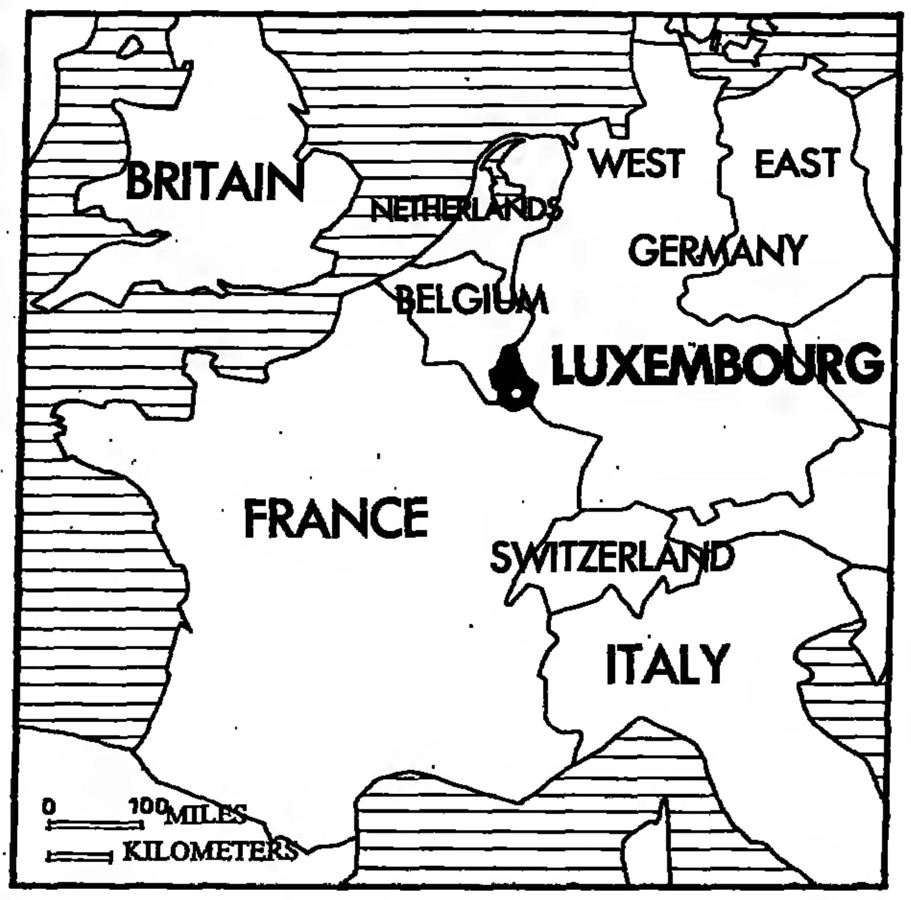
International Herald Tribune
Published With The New York Times and The Washington Post

MONDAY, JUNE 13, 1983

BANKING AND FINANCE IN LUXEMBOURG

A SPECIAL REPORT

Central Luxembourg city.



Isabel Cora-Moutier/IHT

Growth Strategy: A Marked Shift To Retail Banking

By Carl Gewirtz

BANKS IN Luxembourg, like those everywhere in the industrialized world, are shifting strategy tn minimize the *quantity* of new business and maximize the *quality*.

In banking terms, this translates into de-emphasizing the growth of the balance sheet while expanding earnings. And profits these days mean fees rather than revenue generated from the difference between interest received on loans and paid on deposits.

In short, banks here are moving away from their overwhelming reliance on wholesale banking and into private, or retail banking. With a banking secrecy law as strict as Switzerland's, Luxembourg bankers believe they are well placed to compete for a larger slice of this lucrative segment of the market.

Bankers here reason that private clients, or in the jargon "high net-worth individuals," are ready to diversify away from their traditional haven in Switzerland.

Recurrent, albeit aborted, moves in Switzerland tn alter the banking secrecy code and the failed attempt to tax fiduciary accounts have driven depositors tn diversify their holdings out of Switzerland. In addition, bankers here report, fees charged by Swiss banks compare unfavorably to those charged in Luxembourg. And, nnt least, services offered by the Swiss are nn longer very personalized — leaving room for Luxembourg to improve its own services and, thereby, attract unhappy Swiss clients.

Swiss hankers dn nnt refute these criticisms. They say ruefully that their business has been perhaps too good, resulting in bad service. But if Luxembourgers point tn the threat of a weakened secrecy code in Switzerland, the Swiss point out that Luxembourg is tarred by what they call the bad economic and financial reputation of Belgium, to which Luxembourg is tied in an economic and monetary union.

Luxembourg itself has problems. ARBED, once the pride of Luxembourg, is in desperate financial straits, which could have an impact on the local banks that have very large loans outstanding or on the labor market if taxes have to be raised to finance the steel company's survival.

As for the link with Belgium, it is not clear how tight that union actually is. The Luxembourg government made no secret of its outrage last year when Belgium unilaterally devalued its franc and, thereby, also the value of the Luxembourg franc.

But whereas last year Luxembourg had no choice bnt to follow Belgium's lead, today the government has in place at least the theoretical framework by which it could function independently in the monetary field. This is a result of the inauguration this month of the Luxembourg Monetary Institute, which, despite its name, looks very much like a central bank.

Luxembourg officials note that planning for the institute began in 1979, when European leaders began talking about creating a European Monetary Fund and it was realized that Luxembourg would not be able to have its own seat since it lacked the institutional symmetry — basically a central bank — of its Common Market partners.

While officials insist that it would be wrong to interpret the creation of the institute as a threat to the continued monetary union with Belgium, they do acknowledge that Luxembourg has the infrastructure to go it alone and that the institute will be the exclusive international monetary representative of Luxembourg.

The institute will replace the Banking Commission as the Grand Duchy's banking supervisory authority, it will hold the external assets — gold and the quota in the International Monetary Fund — and handle the liquid reserves of the government as well as issue notes and coins. It will also regulate credit creation through ratios imposed on the volume of domestic loans banks can make. But unlike a central bank, it will not lend money to commercial banks through operating a discount window or a Lombard facility (loans against collateral).

In any event, that would be minimal since the bulk of Luxembourg banking activity is foreign. Only 13 of the 115 banks operating here are Luxembourg-Belgian institutions. The 30 West German banks constitute the largest national group, followed by 14 Scandinavian banks.

An overwhelming 87 percent of the deposits at the banks are in foreign currency and despite the desire to expand into private banking only 14.4 percent of these foreign currency deposits come from non-banks, virtually unchanged from a year ago.

The bulk of Luxembourg's banking activity up to now has been the so-called wholesale business — buying deposits in the interbank market and using those funds to make loans. Almost 70 percent of that lending has

(Continued on Following Page)

Debt Share: $98 Billion in East Europe, Latin America

Special to the IHT

LUXEMBOURG'S position at the heart of the European Community has insulated it from the worst of the international debt crisis. The most recent figures from the Luxembourg Banking Commission show that at the end of the third quarter of 1982 the center's banks had 7.6 percent of their assets in Latin America and 4 percent in Eastern Europe. The overwhelming bulk of their assets, in fact 43.6 percent of the total, are concentrated in the industrialized countries of Western Europe.

But, bankers say, the statistics do not tell the whole story. "The percentage figure may be small but the absolute figures are very large," the managing director of one of the center's most important West German banks said. Luxembourg banks have $64 billion out to Latin America and nearly $34 billion in Eastern Europe.

The Grand Duchy's bankers have tried to turn the sovereign debt problem to their advantage by stepping up their campaign for a more generous tax treatment of their provisions. Generally, the Luxembourg tax authorities' attitude to provisions has been significantly harsher than that of other nationalities. For instance, Swedish banks are allowed to make general provisions of 4.5 percent, while West Germany allows its banks to make tax-free provisions of up to 40 percent on specific risks. By contrast, the Luxembourg tax authorities allow banks to make tax-free provisions nf 1½ percent on unsecured credits. The banks are not allowed to make tax-free general provisions or tax-free provisions against sovereign risks.

The banks' efforts to increase provisions are endorsed by the Grand Duchy's banking commissioner, Pierre Jaans. He wants the banks under his supervision to set aside as much as the fiscal authorities will allow them. "But," he said, "as long as the banks who make provisions do not pay too much in the way of dividends it does not really matter whether they make specific or general provisions. We will only know in retrospect if the banks have overprovisioned." In Mr. Jaans's view that would be to err on the side of virtue. "Banks are not capitalized enough," he said. "We should be able to find some way of returning the provisions to the banks rather than taxing them all away."

Luxembourg bankers are becoming rather impatient with the slowness of the fiscal authorities' response. Part of the reason for the authorities' caution is the critical importance of bank taxes to the Grand Duchy's budget. In 1981, 38 percent of all the government's direct fiscal income came from the financial sector.

The Luxembourg bankers remember that it took the tax authorities more than two years to find a solution to the problem of profits due solely to the depreciation of the Luxembourg franc against the dollar and the West German mark. The Grand Duchy's largest bank, Deutsche Bank Compagnie Financière Luxembourg, reckoned that its tax liability, because of that problem, would have exceeded 100 million marks in 1982. "Yet, despite the magnitude of the problem, it

(Continued on Page 16S)

German Presence Still Dominates Euromarket Activities

By Vivian Lewis

THE WEST GERMANS, nearly two decades ago, invented the Luxembourg Euromarket. And they still dominate it today. With 30 banks, the Germans are the leading nationality on the Luxembourg banking scene. Five German banks make up the largest institutions in Luxembourg, with Deutsche Bank Luxembourg in the lead. The four leading Luxembourg banks are ranked sixth through ninth.

So it is hardly surprising that German banks tend to get their way in Luxembourg, for example in negotiating their taxes. As one banker said, "If the Luxembourg authorities make too many difficulties about the provisions we have made, we can always threaten to leave."

Giving teeth to those threats are some other characteristics of German banks in the Grand Duchy, like the fact that they are not very profitable. (Although in Luxembourg accounting, that may only mean that they are strong enough not to be forced to show high earnings and pay taxes on them.) According to a comparative study by Paribas' Jacques Poos — for 1981 — in terms of return on assets or return on equity, as well as taxes paid, the German banks are merely average.

Signs of disaffection are not hard to find — although they may be merely symbolic. The Landesbank Stuttgart was one of the banks that closed its doors in Luxembourg. Two leading German banks, West LB International (ranked fifth) and Commerzbank International (ranked third) at the start of 1983 switched the currency in which they keep their books from Luxembourg francs to German marks.

The international business of German banks, whose share at the end of 1982 was 46 percent of the total, down from 51 percent a year earlier, also is moving out of Luxembourg. (In absolute terms there was a modest increase from DM 32.1 billion to DM 32.6 billion.) The London market, where German banks operate through branches rather than subsidiaries, almost certainly took up the difference. Branches booked 14.3 billion DM, up from 9.9 billion, at the end of 1981. This amounted to 20.3 percent of the total, against 15.7 percent a year earlier.

For German borrowers, according to the Bundesbank, Luxembourg is still the place to go for foreign loans. At the close of 1982, 45 percent of all short-term loans from non-domestic banks to German corporate clients were done out of Luxembourg. The figure for long-term loans was 32 percent. Presumably, some of the lending was by non-German banks.

Various factors have made German bankers shy away from their previous commitment to Luxembourg. The devaluations of the Luxembourg franc have added to costs. To maintain their capital at 3 percent of DM loans, banks have had to add to equity or issue new subordinated loans, all of which costs money. To match the currency in which they keep their accounts to the currency in which they lend, some German banks are using the mark. But other German bankers dislike the trend. "We are a Luxem-

(Continued on Page 16S)

After Ambrosiano: The Case for Rules

BANKING COMMISSIONER Pierre Jaans is perfectly frank about it: "In a way we have been fairly lucky. Had Roberto Calvi wanted to open a bank in Luxembourg before his first condemnation, it would have been difficult to say 'no.' His reputation and credit standing were good and we would have had to grant a banking license."

As it is, Mr. Calvi's Banco Ambrosiano never did get a license to operate a bank in Luxembourg. All it managed was the establishment of a holding company, Banco Ambrosiano (Holding), S.A., which opened offices at 25a Boulevard Royal. The offices and the brass plaque are still there on the fourth floor, although the only people behind the doors now are court-appointed auditors.

The holding company, non-bank though it may have been, still managed to draw a blue-ribbon group of 88 interbank lenders, among them 12 Luxembourg banks. Yet, the victim banks are not claiming that they failed to realize that Ambrosiano in Luxembourg was not in fact a bank. "If a person in a bank was victim of this confusion, he could not be a person dealing with finance," Mr. Jaans said. "He might be a chauffeur, perhaps."

This did not make Mr. Jaans's task any easier. While he said that he never expected Banco Ambrosiano "to sign a blank check" to pay back its loans, "we expected — and people did at the time — that they would sort out the problem and see what they could do financially." So the Luxembourg authorities, like Ambrosiano's creditors, were surprised when nothing of the sort occurred.

Mr. Jaans reacted with speed to protect against the potential for invidious distinction between banks operating on the interbank market and against the tarnishing of the good name of the "place." Other Italian banks working through holding companies (they had operating subsidiaries in Luxembourg as well) were required by the commissioner to provide undertakings, not necessarily public, that they would stand behind their subsidiaries, although held through holding companies, for the sake of "credibility." It was left up to the banks what form the parent guarantee would take.

Mr. Jaans' actions were leaked by the Italian central bank, and plans are now afoot to restructure some of the four Italian banks using holding companies. Mr. Jaans thinks that the incident actually strengthened Luxembourg's reputation for sound banking, although he said that "an American regional bank that intends anyway to cut its interbank lines might use 'Ambrosiano' to cut Luxembourg out."

"It was an interesting story," said Klaus J. Zapf, head of the Dresdner Bank Luxembourg subsidiary, one of the losers. "Our customers did not react negatively. And now it has disappeared as an issue of interest."

"I don't think Ambrosiano was a major problem for any of the American banks here," said Oswald von Goertz, at the Chase Manhattan.

Another banker dismissed the whole thing: "Ambrosiano had more to do with crime than with banking," he said. But Ekkehard Storck, head of

(Continued on Page 15S)

Luxembourg as a Financial Center
Development of Financial Assets 1968–1982

Development of Total Assets

Year End	Number of Banks	Total Assets (billions of Belgian francs)
1968	26	90
1969	32	136
1970	37	236
1971	44	343
1972	53	517
1973	75	832
1974	78	1,067
1975	80	1,478
1976	80	1,709
1977	90	1,852
1978	97	2,509
1979	107	3,203
1980	111	3,917
1981	115	5,081
1982	115	5,987

Geographical Distribution of Total Assets in Respect to Parent Companies

	Number of Banks (April 11, 1983)	Percentage of Shares in Total Assets (Dec. 31, 1983)
Germany	30	50
Belgium/Luxembourg	13	14
Scandinavia	14	8
France	8	7
Switzerland	8	7
USA	10	3
Italy	7	2
Japan	4	1
Other Countries	12	2
Joint Ventures	9	6
Total	115	100

Duchy Manages to Keep Recession at Bay

SEEN FROM the air, the neat patchwork of yellow and green fields and the jagged fissures of deep and shady ravines that make up most nf the landscape of Luxembourg help to illustrate the current checkered pattern of the Grand Duchy's economy.

The worldwide recession, severe structural problems in ailing sectors like the steel industry, growing unemployment and widening deficits all have left their mark on the smallest of the countries in the European Community.

Yet its small size and population — 365,000 — has helped to keep the worst ravages of the economic downturn at the Grand Duchy's doorstep. Its politicians, economists, bankers, traders and farmers have managed to cope with the new pressures and have slowly begun to work their way out of the presently difficult situation.

"We have our problems but we are learning tn cope with them," was how Finance Minister Jacques Santer summed up the situation. While wrestling with a decline in industrial production, negative economic growth and ballooning trade deficits, the Luxembourg government has come to grips with unemployment, inflation and budget shortfalls.

The banking sector, which according to Mr. Santer employs 8 percent of the 141,000 labor force, occupies a weighty position in the government's strategic economic planning.

According to government estimates for 1982, the banking sector is expected to contribute about 30 percent nf direct fiscal income and to account for 15 percent of governmental revenues. The sector, while putting the boom years of burgeoning profits firmly behind it, still contributes heavily to the government's tax coffers and helps to provide a strong vein of security.

The security is needed. The major industrial branch, steel, is deep in the red for the eighth consecutive year and no end is in sight for the financial and structural problems of the Luxembourg-based giant ARBED, Europe's fourth-largest steel producer.

Acknowledging that the main problem is to restructure the iron and steel industry, Mr. Santer remarks: "We can compare ourselves with Biblical Egypt's recurring problems with the seven-year cyclical disasters of the Nile, with the exception that we are now in our eighth year."

Since 1974 Luxembourg has cut its manpower in the steel sector by 47 percent, second only after Britain. Steel output in 1982 was 45.6 percent down on 1974 levels and the industry's share in gross domestic product has sunk from 21.4 percent in 1974 to about 10 percent. ARBED says in its latest annual report: "For the first time, after a period of uninterrupted growth lasting more than 30 years, wages and salaries in the Luxembourg steel industry had to be cut at all levels at the beginning of 1983.

ARBED is currently still in negotiation with the Luxembourg government on industrial planning, financial restructuring and social implications. The major restructuring plan calls for investments of 15 billion Luxembourg francs over the next 5 years and compares with total capital investments of 30 billion francs between 1974 and end-1982. The plan is subject to the prior approval of the Brussels-based European Commission, which is asking ARBED to reduce its steel furnace capacity still further from the 15

Jacques Santer

percent reduction already undertaken by ARBED betweeen 1976 and 1980.

Since the beginning of this year, the future direction to be taken by Luxembourg's steel policies has been the subject of an in-depth review under pressure from current restraints. The constraints in question stem from the unprecedented slump in the steel market in the fourth quarter of 1982 and the grim outlook, the progressive deterioration of ARBED's finances, the urgent need to restructure the company's balance sheet and the negative aspects of the Commission's initial response to the restructuring program.

In the face of these constraints, the results negotiated last year within the framework of the so-called tripartite iron and steel conference, made up of representatives from ARBED, the Luxembourg government and trade unions, proved inadequate and the talks had to be resumed to modify the agreement worked out in 1982.

In the meantime, pressure from the Commission had led the Luxembourg government to commission an independent expert, French industrialist Jean Gandois, to prepare a report on the overall situation of the Luxembourg steel industry. Mr. Ganois was asked tn analyze the true economic situation of the Grand Duchy's steel industry and of ARBED-Luxembourg's steelmaking operations in first-half 1982, the giant's strengths and weaknesses, and possible industrial, social and financial strategies. The report was to be used as the basis for establishing the outlines of a new steel policy, adapted to take account of changed circumstances.

From the report's findings, which are still being studied in depth by the tripartite parties, it appears certain that the original restructuring plan agreed on last year will have to be extensively modified and that the restructuring of ARBED's balance sheet will have lo be undertaken in all haste, company officials said.

It is within the context of ARBED's severe troubles that the Luxembourg government has put together an 11.5 billion franc austerity plan, which it hopes will go some way to ameliorating the strains of unemployment in a sector where the workforce has been pruned by more than 8,000 since 1974, the year the steel crisis really got under way.

Mr. Santer said the government plans to finance the austerity pro-

(Continued on Page 16S)

Domestic Banking: A Key Role in Expansion

By Craig Anderson

IT WAS A farsighted man who, in 1856, when founding Luxembourg's first bank, called it Banque Internationale. The bank was, in fact, founded by a group of German bankers whose idea was to create an international financial center on their tiny neighbor's territory. But not even these pioneers could have imagined what would grow from their initial venture.

From such humble beginnings, the mold was cast that has shaped the development of Luxembourg into one of the world's most important banking centers — second only to London in the exclusive international financial league. As in 1856, when the main shareholders of Banque Internationale, known as BIL, came from across the Moselle, so today all Luxembourg's own banks, apart from the state savings bank, have had to look for shareholders outside the confines of the Grand Duchy's borders.

The emergence of Luxembourg as a major financial capital has not happened overnight. The cautious, conservative approach over the last century and a quarter reflects the character of the Luxembourg people. And despite the influx of foreign banks since the banking explosion began in earnest 25 years ago, the country's domestic banks have played a key role at every step of the way. As far as national banking transactions are concerned, both in the field of retail banking and commercial operations with Luxembourg-based firms, the domestic banks hold sway.

"I would say around two-thirds of the domestic market is in the hands of a small number of domestic banks — the state-owned Caisse d'Epargne, Banque Generale de Luxembourg and Banque Internationale," said Marcel Schleder, president of the Luxembourg Association des Banques et Banquiers and a director of BIL. "The other third is held by the smaller Luxembourg banks, the agricultural cooperative banks known as *caisses rurales*, and also the French banks, which were the first foreign banks ever to set up here in Luxembourg."

In the early 1960s, the country was home to fewer than two dozen different banks; at the last count, 115 banks were established in Luxembourg, almost all the newcomers being subsidiaries of large foreign banks. Although mostly concerned with the Eurobond markets and the syndication of large loans, these banks are also making inroads into the domestic market. However, the Luxembourg banks refuse to be intimidated by such moves.

"Increasingly, these international banks are doing customer business here but that is not particularly worrying for us," Mr. Schleder said. "This is a very small place and home customers are not so important for us now. There are limits to the encroachment of other banks onto this market."

While the ability of foreign banks to muscle in on the domestic retail banking scene is constrained by the size factor, the same cannot be said for the potential of the Luxembourg banks to expand into the domain of their foreign counterparts. The foreign banks are making much greater efforts to entice consumer business from abroad by offering better retail facilities for foreign customers who wish to hold Luxembourg bank accounts. "The aim is to create a kind of Switzerland within the European Community," a leading foreign banker said.

The domestic banks are confident that some of these private customers will deposit their cash with Luxembourg banks rather than foreign ones. The potential for extra business here could far outweigh any losses caused by the foreign banks managing to coax some of the Grand Duchy's 355,000 inhabitants to switch their savings in the opposite direction. Everyone realizes, however, that the major expansion will lie with the burgeoning Euromarkets.

Although commercial banks throughout the world reacted cautiously last year, the deepening indebtedness of many developing countries acting as a brake on large syndicated loans, Banque Générale in its annual report describes 1982 as "a great vintage year in the short history of the Luxembourg capital market." The Eurobond market took off like a rocket, with Luxembourg issues jumping 79 percent from \$24.34 billion in 1981 to \$43.65 billion in 1982, out of a global total of \$180 billion.

It is difficult to separate out the share of these operations accounted for by the domestic banks but Mr. Schleder reckons the main commercial banks devoted between 30 and 40 percent of their entire operations to international business last year, a proportion he expects to increase considerably. Even the state savings bank, whose activities are currently split 9 to 1 in favor of domestic operations, is likely to seek to enlarge its international profile in the future.

"Over the next five years I think international business will probably grow to a level of 50 percent — and maybe more — of total business for the Luxembourg banks, with the percentage much higher for the largest ones," Mr. Schleder said. It would be a mistake, however, to believe that the Luxembourg banks have been riding along on the crest of a wave created by banks from abroad.

The country's three leading com-

(Continued on Page 10S)

Spires rise above the walls and bridges of old Luxembourg city.

John Copes-von Hasselt

The European Investment Bank on Blvd. Konrad Adenauer.

John Copes-von Hasselt

Blvd. Royal, the Grand Duchy's main banking street.

A Shift to Retail Banking

(Continued From Preceding Page)

been concentrated in Western Europe, compared to an average of 50 percent for European banks overall. However, the concentration of loans to financially troubled Eastern Europe and Latin America is higher in Luxembourg than the European average. Loans to Eastern Europe account for 5.8 percent of the foreign loan portfolio of Luxembourg banks and loans to Latin America account for 9.4 percent of the total, compared to 4 and 7.6 percent, respectively, for European banks overall.

The ability of banks here to fund themselves in the interbank market did not suffer last year following the collapse of Banco Ambrosiano in Milan and its Luxembourg holding company, Banco Ambrosiano Holdings. At the time, it was rumored that the reputation of Luxembourg and all banks doing business here would suffer as a result.

But Banking Commission statistics show an insignificant \$600-million decline in Eurocurrency deposits with Luxembourg banks in the third quarter, compared to the first quarter. The most significant changes were an increase of \$3.7 billion in dollar deposits and declines of \$2.6 billion in DM deposits and \$2 billion in Swiss franc deposits. As a result, Luxembourg's share of the Eurocurrency deposit market dipped to 8.8 from 9 percent.

The relatively heavier concentration of loans to Eastern Europe and Latin America also is shrugged off as a result of the impressive profits performance of the banks. Earnings before provisions for bad loans rose 50 percent to 56 billion francs last year after rising 68 percent a year earlier.

Reported 1982 profits after provisions were a mere third of the total, or 18.4 billion francs, a rise of 21 percent from 1981 when 60 percent of profits were set aside for provisions.

Luxembourg analysts attribute the sharp rise in profits to a number of factors: a significant increase in the margins charged on new syndicated loans; the decline in short-term interest rates, creating a favorable impact on the financing of fixed-income assets, and a change in the structure of banks' financing.

In 1979, Banking Commissioner Pierre Jaans said in an interview, Luxembourg banks matched one unit of less expensive non-bank funding with almost eight units of the more expensive interbank funding. But by the end of last year, this ratio had been cut to 1-to-5 — meaning a marked improvement in the profitability of making loans tied to the interbank rate.

The banks will also be receiving a powerful boost in profitability from their provisions for bad loans — the result of lower corporate taxes and extra income. The set aside over the last two years means the banks have slightly more than \$1 billion to finance loans on which they pay no interest at all. They earn as net profit not only the margin on the loan but also the full London interbank base rate.

The tax treatment of these set asides will be assessed when the authorities analyze the accounts in 1985. In the meantime, the banks get a free ride.

At the same time, however, the nature of the Euromarket is changing. Syndicated loans are no longer the growth area they once were and while margins on loans are increasing so are the risks. Loans for the better rated borrowers are now largely the province of North American and Japanese banks, which underwrite huge portions or which have the experts to structure complicated project financings and earn the big fees.

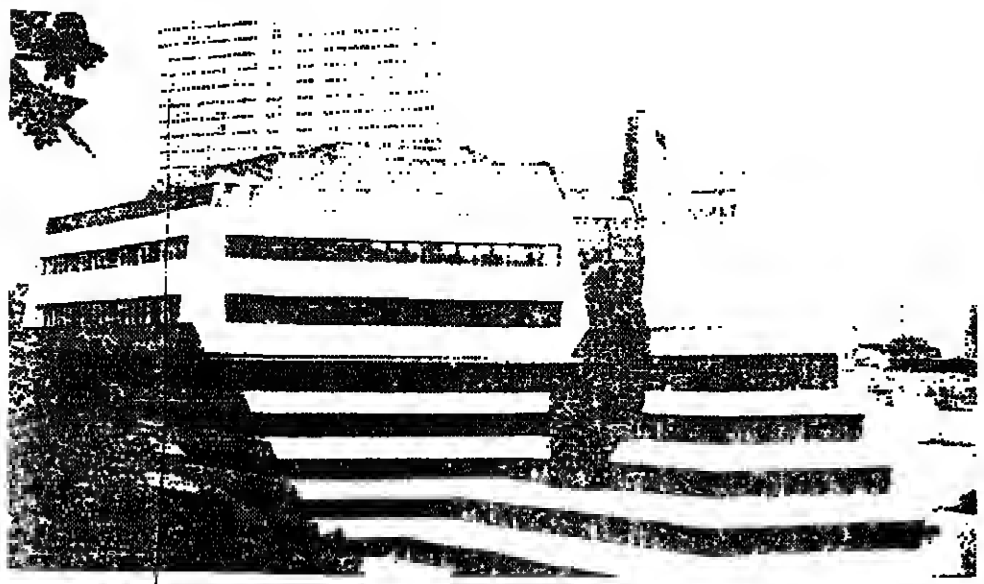
Likewise, in the Eurobond market in which the Luxembourg-based banks played a leading role in the early days. Today, however, issues are bought by a single (U.S. or Swiss) underwriter (for a big fee) and then offered to smaller banks that more often than not give up most, if not all, of their commissions to place the paper.

Luxembourg banks do have a grip on the market for bonds denominated in European currency units, but the volume of business is not enough to generate important profits. So Luxembourg bankers are convinced that their future growth lies in the private banking market, where advisory fees, custodian fees and trading commissions can add up to substantial profits.

Bankers here talk excitedly about establishing private entrances and plush reception rooms for wealthy clients to avoid the bustle of the public banking hall. But some Luxembourgers question whether the banks are capable of producing anything more than the frills of private banking.

"There is no great tradition of portfolio management here," one banker said, "so the banks will have to go out and buy talent. But it will be difficult to attract. Luxembourg is a dull city and is no tax haven for people working here." He questions whether the banks are prepared to pay the price needed to attract foreign talent, adding that this includes software experts to establish the computer systems analysts will need.

"Luxembourg has remained very traditional," he said. "There are no money-market funds or specialized venture capital funds based here. We could do a lot, but it will require a change in mentality."



The European Parliament building. Kirchberg European center is in the background.

Newest Bank Sets Strategy Of World Trade Financing

LUXEMBOURG'S newest bank, International Bankers Inc., opened last month. IBI with largely Saudi funding and French management, will be moving by winter to new quarters along a much more conventional banking street — and it will be anything but a conventional bank.

The bank, controlled through a Curaçao holding company capitalized at $160 million (of which $75 million has already been subscribed) will engage in some rather specialized segments of banking, among them international trade financing, above all between the Middle East and Europe — in oil, gas, sugar, grains and cement. "This will not be commodity trading or buying and selling hog bellies," said Alain Field, one of the two Luxembourg-based general managers. Another line of business will be serving a certain number of clients for placements on the Euromarket and, eventually, elsewhere.

In the business of portfolio management, IBI has a distinct advantage — the high-net-worth Middle Easterners who put up its own capital. Among them are Adnan Khasshoggi's Triad and the Saudi Cement group, headed by Sheikh Abdullah Broom, and, most importantly by volume, Akkram Ojjeh's Techniques de L'Avant Garde (TAG). These men will provide a Gulf connection to IBI. Another area of banking operation is less startling: commercial bank lending to European corporate clients.

Mr. Field, 40, formerly headed the Bahrain office of Crédit Commmercial de France. Another ex-CCF official at the bank is Aymard Durant de Saint-André, the other general manager. They will be joined next month by the new chairman of the Luxembourg bank, Jean de Roquefeuil, as soon as his resignation as general manager of CCF takes effect.

Other executives from CCF at the new bank include its counsel, Paul Monnory, and the chairman of the Luxembourg holding, Jean-Maxime Lèvêque. Mr. Lèvêque in the French election campaign tried to rally the bank's shareholders and clients to oppose the Socialists and resigned when his bank was nationalized. He denied that he staged a raid on CCF to staff his new bank, but he admitted that an element of politics came into play. In France today, he said, "people can no longer engage in traditional banking." As a result, "people are reacting," he added.

Mr. Field said that the bank has been active in engaging staff during its first month of operation. "We are making a veritable Tower of Babel here: not just French, but British, Belgian, German, Luxembourg — and we are expecting a Lebanese," he said. "We are trying to have everybody sharing a team spirit, which is easier to say than to achieve." By autumn, the staff, which has to perform head-office functions as well as engage in its specialized banking businesses, will have reached 30 persons. By then, IBI will be busy in getting its first subsidiary set up, in Switzerland, for portfolio management. New York will be next.

The Luxembourg banking world is looking with considerable favor at the newcomers. Jacques Poos, at Paribas, said: "It is a good sign that international specialists like Lèvêque and Roquefeuil choose Luxembourg." Others are impressed that IBI (as opposed to the holding company) was capitalized at $50 million, when only $7 million was required. "IBI has a lot of capital it can put into Eurobonds," said Edouard Champion at Bank of Boston.

But the most cogent comment came from a bank regulator. "They have to succeed," he said. "If their Luxembourg bank is not successful they can't pull out. So their motivation must be strong." Another banker said that "at least they start out knowing about the country risk problem."

The idea of putting together Arab capital and banking expertise is an old one. In Luxembourg, Bank of Credit and Commerce International is an example. The difference is that, although many of them would like to play down the political implications of their joining what Luxembourgers call the "Lèvêque bank," IBI's executives are *émigrés*. Ideology may not have been the sole motive for coming on board, but it must have counted for something in the decision of the CCF contingent.

—VIVIAN LEWIS

EC Membership: A Source of National Pride

MILLIONS of dollars worth of postage stamps, telephone calls, hotel reservations and taxi fares are some of the more tangible benefits brought to Luxembourg as a direct consequence of the country's membership of the European Community.

Although now largely in the shadow of Brussels as a center for the EC's lumbering bureaucracy, the Grand Duchy is proud of its tradition as the very first host of the fledgling EC, which began to flourish in 1952 with the establishment of the European Coal and Steel Community. More than 30 years later, Luxembourg is clinging tenaciously to the other EC institutions — such as the European Investment Bank, the European Court of Justice and the administrative headquarters of the European Parliament, which have subsequently been established here.

People admit that despite the bonanza for the post office, the phone company and the hotel proprietors, the influx of several thousand mostly highly paid foreigners has brought its disadvantages in terms of pushing up house prices, rents and the overall cost of living.

But this was in the early days, during the 1950s when the main wave of newcomers arrived. Today, the effect is minimal. One gets the impression, in any case that in Luxembourg, the generally high standard of living for a large proportion of the population has not made it too difficult for the man in the street to cope with any problems of this score.

"In a small-scale economy such as ours, it makes a great difference to have so many European civil servants; these people have to be housed and they have to buy food, clothes and everything else," said Collette Flesch, Luxembourg's foreign minister. "The presence of the European institutions in Luxembourg has brought a lot, not only in economic and political terms but also, I think, in general cultural terms. I feel our community has become richer because of the presence of people from throughout Europe."

However, the country's leaders view the presence of the various EC institutions far more in terms of their fundamental political significance than in terms of the day-to-day financial benefits provided by a clutch of futuristic EC buildings nestling on the windswept Kirchberg Plateau and their multinational contingent of administrators, lawyers and linguists.

Politically, Luxembourg is proud of its membership of the 10-nation European Community and believes that its international stature has been increased as a result of it. But is it not the case that tiny countries that join larger groupings tend to lose their own national status and identity? Not so with Luxembourg, Mrs. Flesch said.

"If, in this day and age the Grand Duchy of Luxembourg were on its own, we would probably not be very important in the concept of nations," she said. "We're now members of the European Community, which is an integrated economic entity that matters on the world scene. It's not that we're the most important member state, of course, but in our quality as a member of the community we matter more than if we were just the Grand Duchy of Luxembourg."

As a town almost exactly in the center of the initial six-nation EC, clearly Luxembourg had, and still has, a healthy claim to being host city for the Community.

As a town almost exactly in the center of the initial six-nation EC, clearly Luxembourg had, and still has, a healthy claim to being host city for the community. It is equidistant from Brussels and Strasbourg, where the other Common Market offices are situated. Many other EC governments support the Luxembourg view that it is politically important for the major EC institutions to be situated in one of the smaller member states.

In 1952, Luxembourg was the sole location for the Coal and Steel Community. Today, it shares the honors with France and Belgium, not because EC governments feel it is necessary to divide up the cake but mainly because the community's Council of Ministers has proved unable to come to a decision over locating all the institutions in the same place.

Weary members of the European Parliament are affected worst by this indecision. Their monthly assemblies take place in Strasbourg, all committee meetings are held in a specially constructed building near the offices of the EC commissions in Brussels and their administrative headquarters remain in Luxembourg. The Parliament used to hold half its sessions in Luxembourg but two years ago its members decided — illegally as far as the Luxembourg government is concerned — that the situation had to be brought under control. Their Strasbourg meetings are held in a building borrowed from the larger but less influential Council of Europe, while a debating chamber tacked on to the back of the administration offices at Luxembourg's "Centre Européen" now lies empty. The authorities of the Grand Duchy who financed the building to the tune of $35 million are, understandably, not amused.

Many parliamentarians and civil servants would dearly love to see everything gathered together in one place. Given the choice, they would probably settle for Brussels. It would put an end to the constant convoys of cars, vans and trucks that every week carry tons of documents and the occasional dignitary between the three places of work. Transport costs are estimated to amount to between $25 million to $35 million a year.

"It doesn't seem to me to be absolutely necessary to have all the institutions located in one place," Mrs. Flesch said, defensively. "Particularly now with the progress achieved with modern techniques in telecommunications and such like. I think a lot could be done to improve working conditions and facilities if we drew more on these new technologies. We feel very strongly about it and we think, particularly, that the country that was the first to give hospitality to the European institutions and that has invested a considerable amount of money in order to provide the facilities so that these institutions can be housed and can function, should not be penalized now.

"I think this is a legitimate concern of a small country that has definitely reaped the benefits from the presence of the European civil servants and all the EC activities but that also from the beginning, when it wasn't sure whether the European adventure would be a success or not, was willing to take the risk to invest and to commit itself."

It is obvious that EC activities have brought extra prosperity to the Grand Duchy. It has been estimated that postage costs can go as high as $50,000 for each letter sent out, depending on the number and location of the recipients. Also, the development of international banking in Luxembourg owes some of its acquired respectability to the fact that the EC's financial institutions are also based there in order to use the facilities for easy access to the financial markets. But all this is seen merely as a welcome bonus rather than the underlying reason for hanging on to all those clacking typewriters and busy interpreters' booths.

These are the spinoffs. The benefits, as far as the government is concerned, are counted in terms of the country's heightened political status. What more could a country of 999 square miles (2,597.4 square kilometers) ask for?

—CRAIG ANDERSON

BANKING AND FINANCE IN LUXEMBOURG

BCCI: Success Story for a Local Bank

APART FROM two government banks, Luxembourg has five native banks, all controlled by Luxembourg interests directly or through a Luxembourg holding company.

Each of the five has a foreign affiliation: Banque Internationale, with the Brussels-Lambert banking group; Banque Generale, with Société Générale de Banque; Kredietbank Luxembourg, with the third-largest Belgian bank with which it shares the name, and Trade Development Bank, which is losing its special indigenous quality as a result of the takeover by American Express International (of Geneva, and ultimately, New York) and which will be replaced in this respect by a newcomer, International Bankers Inc.. The fifth, Bank of Credit and Commerce International, despite its Arab capital, is considered a Luxembourg bank because it is controlled by a Luxembourg holding.

For years the rapidly growing BCCI has been looked at askance in London banking circles. By offering 24-hour banking at tourist centers in central London, that quintessentially 9-to-3 banking center, BCCI attracted envy as well as suspicion, particularly because it did so well. Today, the 10-year-old bank has an asset base of $9.6 billion and is growing at a compounded annual rate of 30 percent. It has 28 branches in central London alone, as well as 18 other branches throughout Britain and the Isle of Man. By the end of the year, according to S. Akhlaque Husain, the general manager, there will be 35 branches in London, "to appeal to Arab travelers and the local clientele."

Profits for 1982 soared to $135.4 million, up from $64.8 million in 1981. A number of branches were opened by the group, including a representative office in Peking and banks in Botswana and the Maldives, bringing a BCCI presence to 57 countries. This year, Mr. Husain said, the bank plans to expand its operations in Canada, where it already has four branches.

The BCCI phenomenon may be slowing down, but it is far from ended. "The next time you come to see me, you will find a longer list of countries," Mr. Husain said.

Shareholders have been generous. Instead of having to pay dividends, BCCI has issued new shares and put the money back into the bank. Services and fees have helped the bank create a market for itself, but profits are not generated by the relatively high liquid position that handling foreign exchange and travelers' checks requires. The bank, from the start, has also gone in for short-term trade financing.

But in a way, the explanation may be the businesses BCCI did not get into. "We stick to the business we know," Mr. Husain said. "That is the main reason we have not burned our fingers in Latin America or Eastern Europe." (The bank is absent from the East bloc entirely, and, apart from representative offices in Colombia and Venezuela, virtually absent from Latin America and the Caribbean outside havens like Panama and Grand Cayman.) It has shunned the Euromarket too. "We don't want our name to be on tombstones," Mr. Husain said, referring to the advertisements banks place when they have syndicated a Eurobond or credit.

An outsider praised the BCCI dynamism under Agha Hasan Abedi, who founded the bank with a perfect sense of timing just months before the OPEC price rise of 1973. "But they can't keep it up; they will move toward being a bank like any other before long," he said.

— VIVIAN LEWIS

EIB Forecasts Continued Expansion

By Michael Metcalfe

AFTER five years of exceptionally rapid growth, the European Investment Bank ranks second only to the World Bank among supranational lending agencies. And the EIB, overlooking the banking heart of Luxembourg City, has great hopes for a further four or five years of relatively sharp expansion.

Created in 1958 by the Treaty of Rome, which established the European Community, the EIB is an independent public institution within the community that prides itself on being, above all, a shrewd and practical bank.

"We are not a fairy godmother institution; we have to be hard-nosed, working on a sound financial basis, operating on borrowed resources and enjoying the full confidence of the financial markets," said one EIB official.

The bank's role as a financing instrument inside and outside of the Common Market has mushroomed over the past five years, and its lending and capital resources have done the same. Its total subscribed capital was doubled in 1981 to 14.4 billion European Currency Units (about $13 billion), pushing its lending capacity from about 18 billion ECUs to around 36 billion.

The subscribed capital — which comes from EC member-states, with the bulk contributed by West Germany, France, Britain and Italy — determines the total available for loans and guarantees outstanding. These may not exceed the ceiling of 250 percent of capital, or the 36 billion ECUs mentioned above. At the end of 1982, the total outstanding was 20.7 billion ECUs, well within the limits and a healthy indication of the bank's resources.

The major portion of its financial clout, however, derives from borrowings — principally public or private bond issues raised on capital markets inside or outside the EC. From 1961 to 1982 its borrowings totaled 18.6 billion ECUs. The bank enjoys a high credit standing, reflected by its Triple-A credit rating in the United States. Its bonds are quoted on the world's major stock exchanges.

Since its creation, the bank has provided financing of about 25.8 billion ECUs, with the bulk (about 22.5 billion ECUs) going to Common Market countries. More than 60 percent of the latter sum has been provided since 1979, illustrating the bank's rapid growth in recent years. In 1982, total financing reached 4.7 billion ECUs, with more than 4.2 billion of this going to Common Market nations.

The bank sets no fixed lending quotas inside or outside the European Community. A large part of financing is concentrated in the economically hardest hit countries and districts of the Common Market. Over 80 percent of 1982 loans within the community went to projects in Italy, Britain, France, Greece and Ireland.

Under the Treaty of Rome, the bank gives priority to lending for regional development. This rose substantially last year, with the largest part of funds going to regions suffering high unemployment, and to parts of southern Italy and Greece hit by earthquakes in 1980 and 1981.

The bank is quick to emphasize that its function is not simply to process indiscriminately an endless shopping list of projects sent on by EC states. "Each application is judged purely on its economic and social viability and merits," one bank official said. The EIB employs lawyers, financial analysts and engineers to check each applicant's financial health and management.

"The EIB was set up as a non-profit organization, but it has a duty to maintain a solid capital-lending ratio and not to notch up losses," an official said.

The bank finances projects ranging from the development of anti-cancer drugs to the construction or upgrading of facilities for water, gas, electricity, sewerage, irrigation, transport and telecommunications.

The EIB emphasizes small- and medium-sized investment through so-called global loans. These loans are made to regional or national financing bodies, which use the funds to support investments on lines agreed upon with the EIB. In 1982, the bank advanced global loans totaling about 520 million ECUs, mostly to support 1,400 small- and medium-scale ventures, chiefly in industry.

The bank also places high priority on financing efforts to reduce EC dependence on imported oil. Energy projects financed last year eventually should help replace the equivalent of 17.3 million metric tons of imported oil a year, or the equivalent of about one-fourth of West Germany's oil imports in 1982; they should also provide yearly savings of 4.8 million metric tons, mainly through more efficient use of energy in industry.

The safeguarding and creation of jobs are also high on the EIB list of priorities. The bank provided financing last year that is estimated to have contributed toward new fixed investments of more than 12 billion ECUs.

Ventures backed by the EIB last year should lead to the creation or conservation of more than 58,000 jobs. Projects financed by the bank since 1977, some of which take years to implement, are estimated to have secured employment, directly or indirectly, for more than 410,000 workers in 1982.

Although the bank is a nonprofit organization, its interest rates are dictated by the normal movements of the international capital markets. However, some EIB loans receive a 3-percent interest subsidy financed from the EC budget under a plan to assist less prosperous countries in the European Monetary System. A large proportion of EIB lending in Italy and the bulk of loans in Ireland last year qualified for the 3-percent subsidy.

The bank also makes loans outside the European Community, in particular to Spain and Portugal in conjunction with their plans to join the community. Loans went to 38 countries in all, including Yugoslavia, Egypt, Cyprus and some of the African, Caribbean and Pacific states involved in the Lomé Convention.

Domestic Banking: Key Role in Expansion

(Continued From Page 8S)

mercial banks played a pivotal role in the creation of the whole Eurobond market in Luxembourg in the 1960s, before many of the leading international banks in this market today had even become established in the Grand Duchy. Although it was the appearance of the German banks that sparked the development of syndicated loan operations, around 1970, the Luxembourg banks were also closely associated with this particular phase in the financial boom.

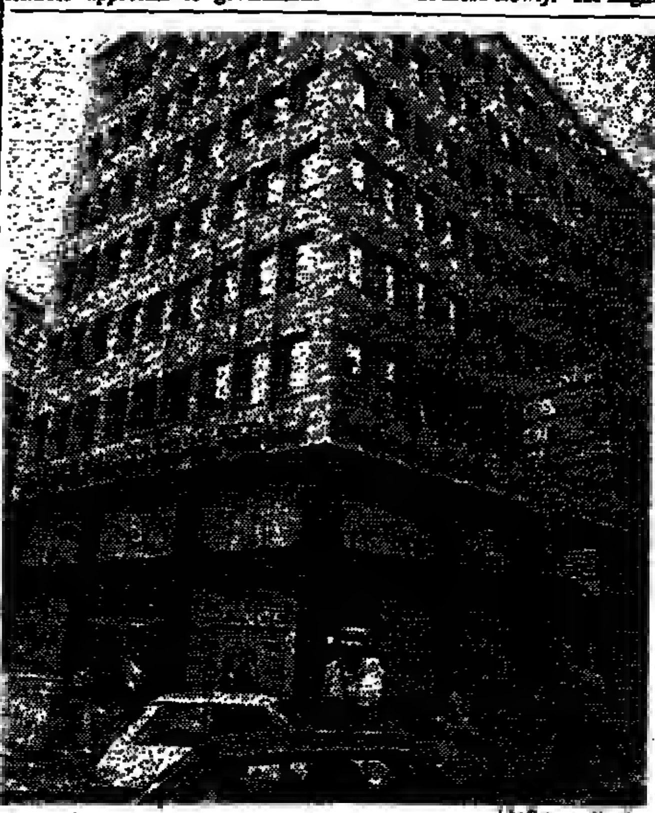
Luxembourg did not become a financial powerhouse merely by accident or because international bankers suddenly decided that Luxembourg might be a cozy place from which to direct their Euro operations. The government may not have exactly planned the entire exercise but it certainly did a great deal to encourage the expansion.

Back in 1929, the Luxembourg Bourse was established, the main aim being to create a truly international stock exchange. Legislation designed to encourage the setting up in Luxembourg of holding companies, whose profits are tax-free but whose activities are restricted purely to buying and selling shares in other firms, has also stimulated the rise in financial transactions. In 1970, La Centrale de Livraison de Valeurs Mobilières, known as Cedel, was set up by 71 different banks to act as an international clearing house for Eurobonds. A flexible approach to government regulation and a completely open border as far as currency movements are concerned have also played their part. In addition, the location of the headquarters of the European Coal and Steel Community in Luxembourg, together with the European Investment Bank and the credit and investments division of the EC Commission, has acted as a further spur to the development of what one U.S. financier described as "a kind of Disneyland for bankers."

In view of the amount of effort that the country appears to have put in to building up its reputation as a solid financial business venue, the local banks might be forgiven for any feelings of resentment against the large foreign banks that have elbowed their way in and now dominate international operations. But, according to Mr. Schleder, no such feelings exist. "We would never have been able to do it ourselves," he said. "The development was on both sides. If there had not been particular Luxembourg banks who were prepared to start the whole development, we would never have got all the big banks coming from outside Luxembourg."

Mr. Schleder believes that the boom years are now merging into a period of consolidation. Most of the foreign banks likely to come to Luxembourg have already arrived and it is difficult to see banking operations growing at the same rate as they have in recent years. "It will grow; I'm sure of that," he said. "But more slowly." He might have added "the Luxembourg way."

"As president of the bankers' association, my approach is to see national and international banks simply as banks here in Luxembourg and to have no difference between the two," he said. "The only real difference has been that all those banks coming into Luxembourg have been bigger banks than those already here, but that is only natural. Now, all the banks here are cooperating together within the association on the whole range of banking problems, on both local and international business. We are happy and proud that the development has come about in such a way."



John Cope-van Hemel

Banking Commission headquarters are in this building.

BANKING AND FINANCE IN LUXEMBOURG

Several banks are located in this office building on the Blvd. Royal.

John Copes-van Hasselt

Foreign Investment: Labor Costs, Location, Productivity Are Incentives

WHY INVEST in Luxembourg? It seemed a simple question to begin with. As a member of the 10-nation European Community, one might imagine that give or take a slight tax advantage here or a government aid there, Luxembourg might be broadly similar to all the rest of the EC countries.

In terms of run-of-the-mill manufacturing investment, it could be argued that this was the case. At around 48 percent, corporate taxation levels for normal *sociétés anonymes* cannot be said to be very far out of line with those in Belgium, France or West Germany.

Since the mid-1970s, the Luxembourg government has been trying to stimulate flagging foreign investment — as all European governments have been trying to do — and although companies can take advantage of a generous package of subsidies for the purchase of land and machinery, investment grants and loans and tax holidays, as a member of the EC, Luxembourg has to remember that all state aid comes under the eagle eye of the European Commission in Brussels.

Any attempt by the Grand Duchy, or any other EC government for that matter, to steal a march on their Common Market partners by going too far out of their way to encourage new manufacturing industry is likely to be stepped on immediately by the commission's competition officials. Nevertheless, a sizable number of foreign firms have decided to set up manufacturing operations. The U.S. tire firm Goodyear was about the first comer back in 1955 and other foreign investors include E.I. du Pont de Nemours, Electrolux-Kreft and General Motors.

Location has clearly been a major factor in persuading companies to settle here. True to its historic position, straddling the Roman and Germanic civilizations, Luxembourg today sits right in the center of the European Community, the world's largest single market with a consumer population of more than 270 million.

According to Eurostat, the EC's statistical service, hourly labor costs are around 12 percent higher than in France but markedly lower than in Germany, Belgium and the Netherlands. Productivity per worker, according to Eurostat, is at least 10 percent higher than all four countries. The inflation rate has consistently stayed well below the EC average — higher than Germany and the Netherlands but lower than France, Belgium and Britain. Consumer prices are below average, with the lowest value added tax rates in the Common Market.

There is also the added attraction of Luxembourg's importance as a financial center. Interest rates tend to be 2 or 3 percent lower than in neighboring countries. At present, for example, average interest rates in Belgium are around 15 percent, whereas a loan in Luxembourg will cost you 12 percent. And even that is considered expensive for Luxembourg.

Finally, the country can boast excellent industrial relations — there has not been a major strike since 1921 — and a highly stable political climate. The "small-is-beautiful" argument certainly applies in this respect. As one Luxembourg-born business consultant said: "You are obviously much less likely to have political or industrial problems if most of the trade union bosses and politicians went to the same school together."

But Luxembourg's economic miracle is only partly explained by its relative success in coaxing foreign multinationals to set up operations within its borders. In other respects, the country is plainly not just another EC member state. The questioo of investing in Luxembourg begs two separate replies. One of the major factors that has led in less than 25 years to the country's development as one of the largest financial centers in the world has been deliberate government legislation to encourage the emergence of that strangest of corporate creations, the Luxembourg holding company.

The legislation was passed in 1929, the same year as the Luxembourg stock exchange was created. Today, out of a total of just under 7,000 *sociétés anonymes*, almost 5,500 are registered as holding companies.

A spokesman at the Luxembourg offices of Ernst and Whinney, the international accounting firm, said: "The law here restricts the activities of holding companies to merely taking shareholdings in other firms either within Luxembourg or elsewhere. They are not allowed to become involved in any commercial activities. In return, they pay oo taxes at all on revenue or dividends apart from oormally 0.2 percent of shareholders' equity.

"Most holding companies are parent companies, the others being subsidiaries in larger groups. But the function is often the same for both types. They may act as a kind of private bank for the other firms in their group, borrowing money on the financial markets here to onlend to subsidiaries or sister companies. In this way, groups can maximize profits at the Luxembourg end of the business, where, of course, they are virtually exempt from taxation."

Whether such activities are wholly ethical is open to question, and most experts connected with the financial scene in Luxembourg say that the system does offer scope for abuse and tax evasion in other countries. Some holding companies are used merely to siphon off profits from the rest of the group into tax-free Luxembourg. However, the majority of firms probably use the facility not to build up massive tax-free profits to be used for nefarious purposes or for private gain but in order to take advantage of the opportunity to recycle money within the corporate group as cheaply and as easily as possible to allow greater freedom for subsidiaries to invest elsewhere.

A leading tax adviser said: "One of the chief advantages of Luxembourg is that money goes in and out of the country without restriction. That is very important if you are financing a series of international operations."

In recent years, the Luxembourg government has felt itself increasingly under pressure from the EC Commission in Brussels, whose initiatives in the field of company law are seen as a potential threat to the very existence of the Grand Duchy as a safe haven for the foreign investor. In 1978, the EC's so-called fourth company law directive laid down a set of standardized accountancy rules to be applied throughout the European Community. Luxembourg's current approach toward corporate disclosure is described euphemistically as "discreet" in international accounting circles. At present, companies registered in Luxembourg are merely required to publish accounts that amount to little more than a couple of lines on each side of the balance sheet. The fourth directive will force companies in Luxembourg to provide a much more comprehensive view of their accounts. Holding companies, however, are largely exempt from the provisions.

Even so, the Luxembourg authorities have so far failed to comply with the 1980 deadline for incorporating the directive within national law and the commission is about to launch infringement proceedings against the country. The recently-approved seventh company law directive will require all parent companies registered in the EC to provide annual accounts giving details of all the activities of firms within their group. Foreign-owned subsidiaries will either have to do the same or provide the annual accounts of their own parent company consolidated on a comparable basis. After a struggle, the Luxembourg government has managed to persuade its EC partners to agree to an exemption for holding companies. The directive is to be applied through oational legislation from 1990 and the main change for Luxembourg holding companies will be a requirement to list all their major shareholdings. The government will also have to set up a special authority to ensure holding companies do not transact any other business.

At present, although company accounts in Luxembourg have to be audited, there is oo requirement for the auditor to hold either a legal or accountancy qualification. Another EC company law directive, an as yet unapproved eighth directive, aims to ensure that all statutory auditors are properly qualified to carry out their function.

The attitude of the Luxembourg authorities to all these moves has left a bad taste in the mouths of many EC officials and diplomats. Officials in the EC Commissioo's company-law divisioo in Brussels have kept asking the Luxembourg government "where the harm in increasing transparency for holding companies is." But, apparently, they have never got a satisfactory reply. "They seem to think that if we touch one element in this economic edifice, then the whole pack of cards will fall to the ground," one official said.

"Of course, they may be right insofar as the psychological attitude of managers and company decision makers is concerned," he said. "Investment decisions may be affected if the comprehensive picture of legislation, or rather the lack of it, is altered at all."

Analysts in Luxembourg tend to discount the government's arguments on this score. "You have to look at why people come here in the first place, and there are three main reasons — lack of taxation, the presence of a large, healthy banking community and easy money flows," one consultant said. "The government knows exactly how to keep companies here and they are not going to change things in a hurry. Luxembourg is a part of the Common Market and so it has to accept community regulations. But accounting rules are not a significant reason for coming or not coming to Luxembourg. There are clearly some holding companies that would pack up and go but I don't think people are really afraid of what might happen on accounting in the future."

—CRAIG ANDERSON

BANKING AND FINANCE IN LUXEMBOURG

Spring weather brings out the sidewalk tables in Luxembourg's Place d'Armes.

Growth of Investment Sector Follows Expansion as a Major Banking Center

SCATTERED around the spacious boulevards and glass banking palaces that form the arteries of Luxembourg's banking heartland, the anonymous-looking brass plates bear mute testimony to the universal attraction of money.

Behind the plates are an estimated 5,500 holding companies, most of which contribute in a smooth and efficient manner to the financial success story of the tiny Grand Duchy.

As Luxembourg developed into a major financial center, primarily because of a burgeoning growth of the banking structure in the last two decades, holding companies and investment funds have sprung up and bloomed in the fertile financial soil.

Expansion in the banking sector, and a slow but steady trend away from strict emphasis on wholesale banking toward more private customer deposit business, has fueled the growth of a diversified area of specialized credit establishments and investment funds.

Liberal legislation on holding companies and successive flexible adaptations and interpretations are chiefly behind this proliferation, although since 1972 the investment funds have been subject to the supervision of the Banking Control Commission.

The supervision has, in part, been responsible for a consolidation of the fund sector.

Whereas the number of investment funds in 1967 was 24, with total assets of 23 billion francs, jumping to as high as 102 in 1970, it had leveled off by the start of this year to 87 and assets of 189 billion francs.

The ground for regulation of banking activities in Luxembourg was laid in 1945 with the creation of the post of banking control commissioner, whose competence was detailed and extended by later texts.

But, while the commissioner's control extends to the supervision of investment fund activities, it does not to those of holding companies.

The present commissioner, Pierre Jaans, said of restrictions on the activities of holding companies: "There is no prudential supervision of holding companies. But they can only operate with the object of holding companies, that is, to hold something, whether it be participations or, to a certain extent, securities."

The commissioner discourages the prudential supervision of holding companies with the argument that company legislation permits the fiscal authorities to inspect the books and accounts to see if legal limitations are being respected.

"I see no reason to protect professionals from dealing with other professionals and where no direct involvement of public funds or the public is at stake," Mr. Jaans said.

He said that those holding companies, which are run in Luxembourg, have participations worldwide and it would not be reasonable to pretend one would be able satisfactorily to supervise them prudentially.

One of Luxembourg's principal attractions is undoubtedly its favorable tax legislation concerning holding companies. For many years, this legislation has attracted important foreign groups that formed holding companies in the Grand Duchy.

In order to adjust itself to the developments in the international financial markets, the legislation of 1929 has found numerous practical applications, particularly with respect to open-end investment companies.

Luxembourg holding companies are exempt from any direct taxes, though a capital contribution tax of 1 percent is levied upon incorporation and any capital increases the company may pursue. Moreover, holding companies are subject to a special annual tax of 0.2 percent, payable in quarterly installments and assessed on the overall amount of the registered capital and the bonds and debentures issued by the company.

Dissolution of the holding company does not give rise to any tax on the proceeds or profits of liquidation.

As a rule, holding companies take the status of société anonyme, formed by deed prepared by a notary or lawyer.

Its capital must not be less than 1 million francs and it is not permitted to engage in trade or industry on its own account.

The law of July 31, 1929, defines a holding company in these terms: "The expression 'holding company' means any Luxembourg company the sole object of which is the acquisition in any shape or form of an interest in other Luxembourg or foreign undertakings and the management and exploitation of such interest without engaging in industry on its own account or having business premises open to the public."

Holding companies operating in the Grand Duchy are permitted to hold portfolios, including variable-income participations, such as capital shares, fixed-income participations, such as bonds and debentures from the public or private sector and issued by Luxembourg or foreign companies, real estate company shares and guarantees for obligations of subsidiaries and affiliated companies.

With such a wide spectrum of financial activities on tap to the average holding company, officials are ready to admit that Luxembourg, like any other major financial center, can attract the shady outsider.

"It is quite clear that in such a large population of individuals you have a majority that behaves in a decent way and you have the black sheep also," Mr. Jaans said.

One of the most recent and notorious "black sheep," the commissioner said, was Banco Ambrosiano Holding S.A., the Luxembourg-based holding company of the failed Italian Ambrosiano banking empire.

Following the collapse of Banco Ambrosiano and the Italian authorities' unwillingness to cover the obligations of the Luxembourg and Nassau operations, the Luxembourg holding company has been placed under a special judiciary regime while investigations into its operations, which are likely to go on for some time, continue, Mr. Jaans said.

In order to iron out some of the irregularities that may arise in the operations of some of these holding companies, which number among them, as well as "black sheep," shells, or as Mr. Jaans describes them, "corpses," Luxembourg company legislation includes some restrictions.

If a holding company does not publish its accounts on a regular basis or fails to comply with other formalities laid out by the Luxembourg authorities, it can be liquidated, or, as Mr. Jaans puts it, "placed before the firing squad." In the last three years, between 100 and 150 holding companies have been suspended by the authorities.

Officials are at pains to stress that the vast majority of holding companies go about their business in an orderly fashion but that their operations are never heard about, while it is the shady and false fronts that occasionally fall under public scrutiny.

"I think Luxembourg should be viewed a bit differently — not as a brass-plate place but as a market place with solid financial attractions of its own," Mr. Jaans said.

—MICHAEL METCALFE

John Cope-von Hüg

ARBED headquarters on Rue de Liberté.

BANKING AND FINANCE IN LUXEMBOURG

John Copes-van Hasselt

The Banque Nationale de Paris on the Blvd. Royal.

Offshore Banking Profits Are Rising

LUXEMBOURG may have very steep taxes, but it is nonetheless proving to be a nice offshore place for international banks to be, to judge by operating profits — from aggregate earnings of 22 billion francs in 1980, to 37 billion in 1981 and to 56 billion last year.

Provisions and taxes reduced those gains to some extent. But in the unregulated environment of Luxembourg, provisions are left to banks to decide and even taxes are something they choose to pay. Luxembourg is like an island haven in this respect, with dependence on international banks.

With 8,621 employees (5,833 of whom are citizens), banks account for 5.4 percent of all jobs in the country. They produce between a fifth and a quarter of gross national product. Banks paid 10 billion francs in taxes in 1981, or 38 percent of all direct taxes, 60 percent of all corporate taxes — and 19 percent of the total budget of the country.

If taxes are easing up, it may be to keep the banks where they are. Luxembourg can make its weight felt in the EC and internationally because of its banking presence. The payoff for a Eurocenter is not only jobs and taxes.

The 115 banks of Luxembourg (13 of which are from Belgium or Luxembourg) had a collective balance sheet at the end of January 1983 of a little more than 6 trillion francs, 5.3 trillion francs of which was in foreign currency. In 1970, there were only 37 banks with a collective balance sheet of 236 billion francs. But while the growth of volume and numbers of banks was rapid in the 1970s, it has slowed in absolute terms and Euromarket share.

London has benefited from Luxembourg's failure to keep pace. According to the Bank for International Settlements, in 1982 the Luxembourg share of assets and liabilities on the European Euromarket was between 10 and 10.3 percent. It retained its third-place position, after London and Paris, but its share of the total market was lower than it had been since 1975. Britain, with just under 52 percent of all European Eurobusiness, was picking up the slack from Luxembourg and also from the decline of Paris as a Eurocenter.

Even apart from the shift to London, Luxembourg is threatened by the shift of banking business to the newly legalized American offshore centers, International Banking Facilities, of which 269 banks have taken advantage.

Many Luxembourg bankers and their regulators were cheered by the remarks of Jean de Roquefeuil, formerly general manager of Crédit Commercial de France, who in June will become chairman of the newly formed International Bankers Inc., founded by Arab interests and incorporated in Curaçao.

Mr. Roquefeuil explained why IBI would not set up in London. "Ratios make it hard to earn money there, in contrast to Luxembourg," he said. (Luxembourg requires that bank capital be equal only to at least 3 percent of lending volume.) Luxembourg fans also cheer other new arrivals like Merrill Lynch and American Express, who are using Luxembourg for investment banking operations. American Express came in via the back door and did not add to the number of institutions in Luxembourg, since it bought the bank holding company of the Trade Development Bank group of Edmond Safra.

Luxembourg still remains the center of choice for some international bankers, like the Bank of China, the Bank Handlowy, the Scandinavians, the Israelis and the Brazilians. Leasing companies and a growing number of investment funds have found that the city's combination of holding-company law and financial possibilities make it a natural. Among the 92 funds are several American stock and money market funds and the only mutual fund to invest in art, Artemis.

But departures can be worrying. In the last 12 months several banks have announced that they were closing down their Luxembourg operations. These included the small German state-owned Landesbank Stuttgart, American Fletcher, International Resources (Bank of

John Copes-van Hasselt

Ernest Muhlen

Montreal), European-American Bank (a consortium that is closing in June) and — from a minority holding — another Canadian and the country's only Austrian bank, Oesterreichische Laenderbank. Home office strategic reasons explain most of the departures, but in the case of the Stuttgart bank, losses on lending to the Ambrosiano group was a reinforcing reason.

To help build up Luxembourg's appeal as a financial center, the authorities are fostering diversification. As in West Germany — but unlike the practice in Belgium, Britain or the United States — Luxembourg banks are "universal" banks, which can engage in credit business but also underwriting, investment advice and management, floating bonds and shares, portfolio management. The American banking contingent of 10 banks includes six that have created Luxembourg subsidiaries rather than branches precisely in order to be able to diversify. And the local government is helping, above all by easing taxation.

The bite on banks have been reduced by suspending — and ultimately, forgiving — the taxes banks would otherwise owe on gains due to changing exchange rates in foreign currency denominated capital and reserves: while the British are suing to tax them. While even in Switzerland there is talk of taxing non-resident accounts in foreign currencies (in Swiss francs there already is a substantial withholding), Luxembourg would not think of doing the same.

Trading in gold is free of turnover and sales taxes, which apply almost everywhere else in the industrial world, and it is now being proposed that silver trade be similarly favored. Double taxation treaties are being negotiated — the most recent one with Singapore — to develop the international no-tax network. Where withholding taxes apply at source to Luxembourg-domiciled institutions, under certain conditions they can be offset against local taxes.

By these measures the government is helping the banks diversify into gold trading and certificates of deposit and, above all, "personal banking," client services for high net worth tax-shy individuals. Ernest Muhlen, who is minister delegate for treasury operations, head of the insurance study group and minister of agriculture as well, said: "The political authorities are fully conscious of the fact that the tax system is not so attractive to the banks as it could be in comparison with other centers." These views, startling enough from a minister in any country, were expressed in March before the British Chamber of Commerce.

Although Luxembourgers, like Mr. Muhlen, are almost proud that, as he says, "Luxembourg is not a tax haven," they take a relatively relaxed view of the games bankers play for avoiding taxation and for internal and accounting reasons. Where some credits are booked (which is at the option of the bank), what loan loss reserves are taken — and where — determine the profitability of banks, and how much Luxembourg collects in taxes. The volume of net profits and taxes depends on the good will of banks and a subtle negotiating process no one talks very much about. By modifying their demands, the Luxembourg tax authorities ensure that foreign banks stay in the Grand Duchy.

—VIVIAN LEWIS

The Grand Duchy's international airport.

BANKING AND FINANCE IN LUXEMBOURG

Outside the capital: Left, the Moselle River, the boundary with West Germany; right, the picturesque town of Esch.

Loan Currencies: Deutsche Mark Assets, Liabilities Far Outweigh Dollar's

Special to the IHT

TWO CURRENCIES dominate Luxembourg's interbank market — the dollar and the Deutsche mark. The latest figures from the Banking Commission show the two currencies accounting for exactly equal amounts of the center's banking assets, 41.5 percent each.

But it is a different tale on the other side of the balance sheet. Here dollar liabilities far outweigh Deutsche marks. At the end of the third quarter of 1982, the dollar accounted for more than 53 percent of the center's total liabilities, while the mark liabilities amounted to a little more than 30 percent of the total.

But when the figures for Luxembourg are compared to the rest of the Euromarket, the Grand Duchy emerges as a notable Euromark center but a negligible dollar center. Luxembourg's banks have more than 30 percent of the Euromarket's mark assets and nearly a quarter of its mark liabilities. That compares with a figure for dollars of a little more than 5.5 percent of the Euromarket assets and 6 percent of its liabilities.

West German banks, as befits their role as the largest national grouping in Luxembourg, dominate the interbank market. They account for more than 50 percent of the business done on the interbank market. A lot of the business is arbitrage between dollar and mark.

Luxembourg's interbank market differs little from London's. The average size of trades in Luxembourg is much the same as in London or any other financial center, but the volume is considerably less. Luxembourg has only a quarter the number of banks London has and it has a very small Japanese presence. In London, the Japanese banks account for nearly a third of the trades that take place.

The main suppliers of funds to the interbank market are the Swiss banks. The main takers have traditionally been the Scandinavian banks and this is still the case. They came to Luxembourg to raise funds for loans to support their domestic customers and this is still their main activity. "We were attracted by the absence of reserve requirements in Luxembourg," a senior Swedish banker said. "Our business is almost entirely Swedish related — either for Swedish borrowers or for Swedish exports. We fund it entirely on the Luxembourg interbank market."

Such is the Swedish presence in Luxembourg that the Grand Duchy has become the leading krona/dollar center in the world. Several banks now specialize in the forward dollar/krona market that has developed over the last three or four years.

Forward markets are a Luxembourg peculiarity. Very little business is done in the spot markets. Luxembourg is predominantly a deposit and forward center. Banks tend to do their spot business in the world's biggest foreign exchange centers — London and New York. The forward markets are where banks make their money — they take a position on a currency and if they are right they unwind the position at a profit. The downside risk is limited because of the liquidity of the market.

Besides the Swiss banks, who recycle the money deposited with them in Switzerland through Luxembourg, the main providers in the Grand Duchy are the French and indigenous banks. The French are less important providers than they used to be. Banque de Paris et des Pays Bas in Luxembourg is known to have suffered a drain of deposits after the election of President François Mitterrand and the nationalization of those banks that were not already nationalized. Paribas recovered by buying a large stake in nearby Banque Continentale du Luxembourg, staffing it with native Luxembourgers who redirect clients there. "It seems to have worked," one West German banker said.

The local banks have always been important providers of funds in Luxembourg. The largest of the local banks, Kredietbank Luxembourgeoise, has more than half its liabilities in the form of customer deposits. Although Luxembourg is part of the Belgian-Luxembourg Economic Union and shares the same currency — but not the same coins — Luxembourg is a different country, as was graphically illustrated last year when the Belgian franc came under pressure and was devalued by 8.5 percent. The authorities were furious and threatened to leave the union. They also stopped non-Luxembourgers holding Luxembourg-franc assets, which led to a growth in demand for assets denominated in European Currency Units.

There is now a small but significant market in European Currency Units in Luxembourg. "It's just a drop in the barrel," one experienced trader said. "There is a small handful of market makers. A few corporate treasurers use the European Currency Unit to hedge, and the European Commission is a big player." The average size of an ECU trade is between 1 million and 3 million.

Luxembourg bankers are worried by the lack of diversity in their sources of funding. "We are too dependent on the Swiss," a senior banker said. Luxembourg bankers are concerned that there is little U.S. involvement in their market. U.S. banks are pulling out of Luxembourg rather quickly.

There are also no U.S. regional banks in Luxembourg. To a very large extent they are the most important suppliers of liquidity to the London interbank markets.

Arab money, too, has virtually passed Luxembourg by.

Although Bank for Credit and Commerce International has its headquarters in Luxembourg it is not a major player on the interbank market.

More importantly, Luxembourg handled very little of the Organization of Petroleum Exporting Countries' surplus at first hand; the big banks in London, New York and Frankfurt handled that.

Settlement Preserves Belgian Monetary Link

THE DUST is settling in a dispute between Luxembourg and Belgium over the 62-year-old monetary marriage of convenience between the two neighbors, a marriage that at times last year seemed headed for divorce.

Luxembourg's demands for far-reaching amendments in the association have been partially met by Brussels. This has stilled rumblings in the Luxembourg government, though many citizens of the Grand Duchy are still far from pleased.

The anger expressed by Luxembourg last year when the Belgians unilaterally devalued their franc — forcing an identical 8.5-percent adjustment downward of the Luxembourg currency — has changed to a sense of reserved satisfaction.

The change in sentiment was best felt in March this year, when a realignment of the European Monetary System brought about an upward adjustment by 1.5 percent of the two countries' currencies.

"We have gained our broad objectives and we are on the whole satisfied with the existing arrangement," said Finance Minister Jacques Santer. But he cautioned that Luxembourg was "prepared to meet any eventuality."

The association dates to July 25, 1921, with the establishment of the Belgo-Luxembourg Economic Union, or BLEU; the terms of the charter were amended in 1963 and again in 1981. Under BLEU, Luxembourg has a separate currency, but the Belgian franc is also legal tender in the Grand Duchy.

As part of the monetary union, Belgium and Luxembourg laid down common exchange regulations, which are applied by the Institut Belgo-Luxembourgeois du Change, or IBLC.

The regulations are based on the principle that foreign transactions are freely allowed but that they must be carried out either on the official market, where fluctuations in the exchange rate are controlled by the Belgian National Bank, or on the open market, where the rate is freely determined on the basis of supply and demand. "It's a system which, while complex because of its dual nature, on the whole works to the general satisfaction of both parties," commented one central bank official.

The advantages of the dual system become clear when the exchange market is unsettled, as was the case before the March 21 realignment, when speculative pressure on the weak French franc forced Common Market governments to act.

Where the system breaks down, explained a financial analyst, is in the large divergences in the Belgian and Luxembourg economies. The Belgian economy suffers from higher inflation, proportionately wider budget and trade deficits, and much larger-scale unemployment.

This was the case in February last year, when, as one senior Luxembourg official described it, "The Belgians passed the buck of their economic troubles onto us."

The 8.5-percent readjustment at that time caught the Luxembourgers unawares. As Mr. Santer said, "We were informed like all the others, by phone, which is difficult to swallow when you have had a long partnership." The Grand Duchy's government, incensed by the Belgian move, pushed for three major amendments to the BLEU monetary protocol.

The government demanded that it be consulted well in advance of any planned parity change; that the gold and foreign exchange reserves of each country be valuated separately; and that exchange rate guarantees be given for Luxembourg assets held in Belgian francs.

On the first point, Mr. Santer said that the Luxembourg government had gained its objective. "In the matter of prior consultations, we are well satisfied; we now have regular consultations," he said.

Negotiations on the second and third points — which are related, since separate identification of currency reserves would help Luxembourg pressure the Belgians into giving compensation in the event of a break in the parity link — are continuing with some difficulty, Mr. Santer said.

A major obstacle is that Luxembourg does not have a central bank of its own, but uses the Banque Nationale de Belgique as its central bank. Because foreign reserves in the bank's vaults are the sole property of the bank, and assessing the contributions of each country would be an accounting nightmare, Luxembourg's case is weakened.

The establishment this year of the Institut Monétaire Luxembourgeois, which is designed to have many characteristics of a central bank, may make Luxembourg's task a little easier and provide it with more weight in European Community discussions on its monetary system.

But on the whole, the Belgo-Luxembourg exchange regulations, including the dual exchange-rate market, are flexible enough to allow speculation and monetary disturbances to be dealt with effectively, without interfering with freedom of trade between the two neighbors.

And should this fail, which now seems unlikely, the Grand Duchy could resort to its ultimate weapon — pulling its franc out of the association and breaking the parity link. While not threatening to do this, Mr. Santer noted that a precedent existed, when in the mid-1930s the two currencies severed their parity bond.

No such breakup seems likely now. While pushing for greater freedom of action in the association, Luxembourg is eager to pursue a policy of stability in its monetary dealings. If this can be realized, and its interests taken into account, then Luxembourgers will make do with their sometimes rocky marriage.

—MICHAEL METCALFE

The Kredietbank on the Blvd. Royal.

BANKING AND FINANCE IN LUXEMBOURG

International Clearing System, Interbank Market Support Bonds Business

IN THE world of Euromarkets you have two elements trying to meet: funds looking for a home and a rate of return — preferably free of excessive tax burdens — and "vagabond" investment opportunities.

Both can come together in a dozen places in the world today under conditions more attractive to borrower or lender than in Luxembourg. The fact that certain business has been booked there in the past or is being booked there now "is no guarantee for any single banking center," said Ekkehard Storck, head of the Deutsche Bank subsidiary in Luxembourg.

Luxembourg, the place where the proverbial bond holder, the Belgian dentist, is closest to home, remains the venue of choice for some operations, notably Eurobond issues. Of all Eurobonds issued last year, Luxembourg banks participated in 16.3 percent by volume, a drop from 21.8 percent the previous year and even higher levels a decade ago. The reason is that more bonds are being denominated in dollars — a currency in which Luxembourg is relatively weaker — than in West German marks, French francs or the handful of European and international composite currencies like ECUs (European Currency Units), SDRs (Special Drawing Rights), EUA (European Units of Account) and EURCOs (European Currency Options).

But in the secondary market, Luxembourg remains well positioned, with its Bourse quoting no fewer than 48 percent of all bonds traded, up from 45.4 percent a year before. In certain of the special currencies the Luxembourg Bourse is the only quotation place. Luxembourg bonds tend to be issued for European companies and countries — no mean thing in the present climate of uncertainty about Latin America.

Backing up Luxembourg's capacity to buy and sell Eurobonds is one of the two international clearing systems, Cedel, with headquarters in the Grand Duchy, which is run by a group of banks and is something of a cooperative, in contrast to the other system, which is managed by Morgan Guaranty out of Brussels. With bond clearing and quotation operations often centered on Luxembourg, it has picked up other bond business as well: warehousing, paying agent and destruction center. The result is a fee business for banks.

Another support — both for the bond trade and for Eurolending out of Luxembourg — is the flourishing interbank market, particularly in marks. "Our volume per day can be three times our capital," said Jürgen Förster, newly appointed manager and member of the board of the Luxembourg subsidiary of a *privatbankier*, a small partnership bank from Germany, M.M. Warburg-Brinckmann, Wirtz.

"Where else with one phone call to a partner can I take or give 60 million marks?" For all the talk about the rise of private banking, most Luxembourg syndicated credits and loans are still funded from the interbank market, 85 percent at the close of the third quarter of 1982.

It is symptomatic of Luxembourg's importance as a bond trading center that the present head of the bond dealer's association is Damien Wigny, head of international operations at Kredietbank Luxembourgeoise.

Yet, it is no accident that the currency Mr. Förster mentioned to indicate the size of deals he could do in Luxembourg was marks. It was the West German banks — impelled by restrictions at home — who first made Luxembourg an international banking center. And Luxembourg's competitive position — and indeed its survival as a Eurocenter — depend on the West German banks wanting and needing Luxembourg.

But having been first to discover the advantages of Luxembourg, the West German banks have been joined by substantial contingents from other European countries doing their own special kinds of business in Luxembourg. Others tend to agree with Wolfgang Spehr, head of West LB International, the Luxembourg offshoot of Westdeutsche Landesbank, that "the Luxembourg advantages remain; it is cheaper than London."

Because the Scandinavian system of exchange controls makes it disadvantageous for their powerful multinational corporations to repatriate profits or borrow at home for overseas investments, the Swedish banks started to set up in Luxembourg 10 years ago. Today, there are 14 Nordic banks in Luxembourg, making them the largest contingent after the Germans. Backing up their interbank business, they have gone in for leasing and factoring operations and have set up a network of non-bank financial subsidiaries to do them.

An even more startling contingent is the eight-bank Swiss presence. Among the newest banks in Luxembourg are the Swiss, operating fiduciary accounts. These are funds that, under the Swiss banking system, may be transferred on behalf of clients from Swiss banks to their Luxembourg subsidiaries and placed at interbank rates (after the Swiss bank has deducted charges.) The difficulty is that the funds are placed in the name of the Swiss bank while the client bears the risk. But he also avoids the high withholding tax the Swiss impose. Then, too, a Swiss bank can buy gold for a client in Luxembourg without transfer taxes (which would have to be paid in Switzerland.) And the two-year-old Luxembourg bank secrecy law, as any banker who is not Swiss himself would attest, is generally accepted as being even stricter in protecting client secrecy than the Swiss.

This brings up another Luxembourg selling point: tax evasion. It is as a typical Luxembourg banker, and not as a director of the French state-owned Banque Paribas (Luxembourg), that Jacques F. Poos tells potential clients: "It is up to you how you bring the money here. It is op to you to declare what is required to the tax authorities responsible."

The French banks in Luxembourg, under their own names or otherwise (Banque Continentale, Banque de Luxembourg) are in the same business as the others, and the oearby border with France must bring them some illicit business. And West Germans find that Luxembourg is a good way to escape that country's annual wealth tax and its inheritance taxes too.

—VIVIAN LEWIS

Growth of Insurance Business Would Help Diversify Market

LUXEMBOURG is already home for two Swedish insurance giants — Electrolux, the appliance firm, and ASEA, the heavy electrical equipment maker — and the Grand Duchy's authorities plan to attract others from other European countries.

Authorities are hoping that insurance companies, controlled by multinational corporations to cut their taxes and gain access to the wholesale end of insurance, will help diversify the Luxembourg financial market, and for four years they have been working to create the preconditions for investment.

The Swedish arrivals are an indication that the concept makes sense, and talks are going on with another half-dozen or so companies from other countries. But Luxembourg, with a relatively high corporate tax rate, is not the obvious place for insurance, compared, say, to Bermuda, where there are more than 8,090 companies.

In Europe, according to Luxembourg's insurance supervisor, Victor Rod, the major competition comes from the Channel Islands and the Isle of Man, which are "close to the London market with tax advantages." Furthermore, Luxembourg still is short of the specialized staff the business will need.

To increase attraction, the government is not offering a generalized cut in the corporate tax rate to the levels of "exotic" island insurance centers, "but we will give companies the opportunity to create technical provisions to avoid too much profits," according to Mr. Rod. Tax-cutting is only incidental anyway, as the real saving comes in the headquarters country. There, a company will set up a captive in order to insure its own risks while deducting from taxes the premium reserves. If a company pays the premiums to itself, it cannot deduct them from taxes as a cost of doing business. Then, too, when a corporation does not want to cover all its risks, it requires a primary insurer or a captive to gain access to the wholesale market in reinsurance. In the U.S. offshore markets, U.S. court rulings required that captives do a certain amount of non-related insurance business to permit their parents to deduct premiums. As a result, many bought business that other insurers did not want. In Luxembourg, however, according to Mr. Rod, "we don't want captives taking up risks that don't belong to their own parent."

The good name of the Duchy is important to the insurance regulators, who worry about the solvency and solidity of the insurance newcomers. "We are not interested in 'cowboys' without a sound foundation," Mr. Rod said. Already, the Duchy has attracted one major reinsurer, Corelux, a subsidiary of La Licorne, the French insurance group. Citibank, which is regularly rebuffed in its attempts to buy a U.S. insurer, is having talks with the insurance commissioner; American Express, which controls Fireman's Fund in the United States, is also reported to be interested. In addition, marine, aviation and transport risk "clubs" from two British mutual insurance groups are based in Luxembourg — and pay a total in premiums of 10 billion francs, more than all 43 domestic insurance companies combined, according to Ernest Muhlen, the treasury minister-delegate and head of the government's insurance study group.

To ease the way for insurance expansion, Luxembourg is counting on the proposed EC directive on freedom of services, which would allow Luxembourg-based companies to sell insurance all over the Community. Then, too, the profession of insurance broker — prohibited under present Luxembourg law — will be legalized for those dealing in international insurance policies. "It is difficult to imagine an international financial center like Luxembourg without professional intermediaries," said Mr. Muhlen, who has introduced a draft bill to change the law.

—VIVIAN LEWIS

Headquarters of the Luxembourg State Bank.

After the Ambrosiano Case: Need for More Regulations?

(Continued From Page 7S)

the Deutsche Bank subsidiary, did not agree.

"The understanding was that the parent company would back it," he said.

"A number of banks lent to the largest private bank in Italy and the subsidiary was felt to be as good as the parent. Many things are still unclear. Despite the strict banking control, the climate has suffered in Luxembourg."

But most bankers feel that if regulatory confusion remains and while Italian authorities failed to provide adequate backing to Ambrosiano, the Luxembourg authorities acted with speed and a good understanding of the situation.

But that is par for the course in Luxembourg, where the government is quick to do what it can for banks.

In recent years this has taken the form of tax breaks — not taxing the capital gains banks earn from the fall in the national currency for example — and special laws, like the secrecy rules.

"Where else but in Luxembourg can I call up the prime minister and meet him the day after tomorrow?" said Bengt Senneby, managing director of Skandinaviska Enskilda (Luxembourg.)

The authorities have also eased the way for Luxembourg to develop its tax-free gold trade. "Why do you think Pierre Werner [the prime minister] goes to every banks' cocktail party?" one banker asked at the Chase's celebration of its 10th anniversary.

"He has no choice."

Another major area of potential international confusioo concerns Luxembourg's growing role as a haven to foreign funds, particularly from France.

There are rumors in Luxembourg of mail being opened by the French customs authorities and "frontier workers" (who cross the border to work in Luxembourg banks) being blackmailed to provide client lists.

"There have been instances in which we wondered whether procedures were strictly kosher," Mr. Jaans said.

And, he added, "arrests would depend on the degree of provocation, if persons were performing activities not in accordance with international agreements."

While concerned not to play up the potential for conflict, he certainly made it clear that Luxembourg would react as strongly as Switzerland did three years ago in arresting two French customs men who were trying to buy a list of bank customers.

"It is oot the role of this country to take care of implementing the legislatioo of neighboring countries," Mr. Jaans said.

—VIVIAN LEWIS

National Tourist Office

A view of historic Ansembourg castle.

BANKING AND FINANCE IN LUXEMBOURG

Low Profitability Cutting Down U.S. Presence

AT CHASE *Manhattan's 10th* anniversary cocktail party in Luxembourg, Prime Minister Pierre Werner caused a few eyebrows to be raised when he thanked the Chase men "for not having defected." This was not a reference to the recent departure of two U.S. banks from Luxembourg — American Fletcher and European American Bank — but to the decision by the New York bank to stay on in Luxembourg four years ago, after serious study had been given to closing shop.

Like others of the surviving 10 U.S. banks (soon to be reduced to nine, from a 1973 peak of 16), Chase found after its arrival with fanfare that profits were not that easy to come by. Even after deciding to remain business has not been exactly sparkling and, despite a billion-franc increase in balance sheet totals last year, profits were actually down slightly.

10 American Banks Survive From '73 Peak of 16; Private Services Bring More Than 50% of Income

Having rushed to establish in Luxembourg, U.S. banks were in trouble with headquarters when the profits did not come rolling in. "They had to scratch their heads and think about what to do," Banking Commissioner Pierre Jaans said. Most banks found themselves a little niche in the banking edifice — or left. Chase, for example, found itself two niches — private banking and commission business for the bond market — both of which it shares with one or another of the U.S. banks in Luxembourg. For Chase, as for Bank of America and Bank of Boston, private banking accounts for more than half of operating income.

"Private banking is retail banking with a few flowers," said Bank of America's managing director, Patrick I. Cuningham. At most of the leading practitioner banks, a client with $20,000 or $25,000 minimum to deposit will get a certain amount of personal service — including discretionary fund management, should he wish it. "This is the future of Luxembourg," said Mr. Cuningham, whose bank is the leading U.S. bank in the deposits it takes from non-banks and which earns 80 percent of its profits from this business. Bank of Boston, which is smaller and even more committed to this operation in proportion to its size, gets a little more than a quarter of its deposits from the interbank Euromarket. Bank of America gets 58 percent interbank and the other American banks even more.

In this business, U.S. banks in Luxembourg have something to offer. "You wouldn't expect Frenchmen to go to a French bank," one specialist in personal banking said. Another said that there was little reason to go through a Swiss bank and pay fees that are higher than in Luxembourg. "Luxembourg means something," said Bank of Boston's Edouard Champion. "It is the way to avoid intermediaries." Another banker cites the dangers of Switzerland for personal banking customers: the possibility of a withholding tax being applied, the danger of snooping by the U.S. Securities and Exchange Commission.

Oswald von Goertz, managing director of Chase, is not willing to allow the more stringent Luxembourg secrecy laws to apply if there is any suspicion that a U.S. client might be engaged in insider trading. "We rarely have an American client," he said. "For an American to open an account in Luxembourg, we would assume he wants to hide something. We could ask him for a waiver of secrecy if an American authority asked for information. We would not want to jeopardize our American license."

None of the other banks offering private banking services shared his concern. But Mr. von Goertz may have been reacting to a peculiarity of the Chase hierarchy, which puts Luxembourg and other private banking centers (like the Channel Islands) under William M. Rowan of Chase-Manhattan Switzerland.

Chase's other expertise is in correspondent banking. For example, it acts for the Luxembourg clearing group, Cedel, in the United States. And it is a paying agent, which earns fees and a certain amount of rollover interest. "The borrower pays one or two days before the coupon is due," Mr. von Goertz said. But in this business, of earning fees for services to the banking community, Chase is a weak second to Citibank.

"This is more like a factory than a bank," said Jean-Pierre Fraas, who heads the Citibank operation in Luxembourg. "We provide complementary financial services to other banks and institutions. Our bank is not open to the public." Citibank acts as nominee, paying agent, safe-keeping agent, depository and even destruction agent for other banks and the Cedel network. Sixty-five percent of the staff work on security, and the bank has an enormous vault to store all that paper safe from theft, counterfeit and fire. Even after insurance has taken a slice, it is, with Chase, among the top ranking U.S. banks in profitability.

Not only is Citibank situated at some distance from the rest of the Luxembourg banks, but is visually a world removed from the plush surroundings intended to attract the high net-worth individual client. But these diversification moves out of Euromarket business are the price the U.S. banks in Luxembourg had to pay for survival. "Diversification is a useful thing for Luxembourg," Commissioner Jaans said, "particularly in a period where bank profits are affected by wild interest and exchange rate fluctuations."

The arrival of another newcomer to Luxembourg, Merrill Lynch, has emphasized the appeal of Luxembourg as an investment haven for the rich international client. "They are in the same business as we are — personal banking," said Mr. Champion of Bank of Boston.

And Ernest Muhlen, treasury minister-delegate, noticing that Merrill Lynch was "becoming more active," forecast that other U.S. brokerage houses and some Japanese might choose to follow. "There is business to be done not only in portfolio management, but in the stock exchange, for example in European Depository Receipts," he said. (These enable a share from the United States or Japan to be quoted and traded in Europe). Merrill Lynch, along with several of the U.S. banks, is an active intermediary on the Luxembourg stock exchange.

—VIVIAN LEWIS

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Ekkehard Storck
Deutsche Bank.

Germans: A Strong Presence

(Continued From Page 7S)

bourg bank and should use the currency of the country," said Ekkehard Storck of Deutsche Bank.

Yet, for all his defense of Luxembourg, most recently in a long lecture at the Capital Markets Society at Goethe University in Frankfurt, Mr. Storck said that Deutsche Bank was shifting some of its operations to London when they originate in countries with a high withholding tax. "We can use the tax against British taxes because of double taxation agreements," he said. "There is a limited possibility to absorb withholding taxes by offsetting against Luxembourg taxes." The lack of a double-taxation agreement network in the Grand Duchy affects German and other banks, which have alternative Eurobanks — and which earn profits.

The shift to London is partly a matter of cosmetics. With loan demand off in Germany because of the recession, banks have put business on the books of branches (such as London) rather than subsidiaries (such as Luxembourg.) Profits can be moved the same way, and profits are rising for German banks at this juncture because of falling interest rates. "Income from-operations mainly accrues in Germany," one German banker said. "There are ways and means." But of the shift within Europe, he said, "It is artificial; it can be reversed from one day to the next."

A major uncertainty for the German banks in Luxembourg is the rules, definitions and timing of the Berlin banking authorities' impositions on Luxembourg of the cumbersome German system of banking ratios. So far, there is only an informal agreement that the ratios, most notably the rule against allowing capital and reserves to fall below 1/18th of loan volume, will be applied by German banks outside Germany. The Luxembourg contingent is as confused as the home offices about what the new measures will entail and the timing of the shift. There is concern as to whether the "prudent" ratios should also apply — the rule that a bank must have reserves to offset 20 percent of loans to a German bank, like Citibank AG, and 50 percent of loans to a foreign bank, like Citibank S.A. — or whether subordinated loans, which count as capital in Luxembourg, will be allowed in Germany, as the Bank for International Settlements has advised.

The trend, when the "gentlemen's agreement" has turned to law, possibly as soon as the end of 1984, will be for German banks to do even more business in Luxembourg. Home-office pressures, regulations and some factors in Luxembourg itself will help to speed matters. "The climate has suffered because taxes have risen — direct taxes, indirect taxes," Mr. Storck said. "We are irritated because costs are going up. We are comparing Luxembourg today to Luxembourg in the past. Why should I compare it to London?"

Policies Hold Back Recession's Ravages

(Continued From Page 7S)

gram through increases in indirect taxation, such as Value Added Tax (VAT), more loans and wage restraint.

The austerity plan, spread over the next two years, has as an important element — limitations on the indexation of wages. "We can no longer allow automatic wage rises every two months. From 1983 and 1984 we will allow only 4 tranches of indexation, of 2.5 percent this year and 1 percent in 1984," Mr. Santer said.

Moreover, there have been cuts in administrative costs and a tightening of social expenditure. Mr. Santer, who is also social affairs minister, noted that Parliament is currently debating a bill to reform Luxembourg's social security system and to create a new method of financing the system geared to cut costs.

Along with having to cope with industrial production that was estimated to have declined by more than 1.8 percent last year compared with 1981 and a contraction in gross domestic product of around 2 percent, the government has had to tackle a trade deficit believed to have widened from over 16 billion francs in 1981 to about 25 billion last year. Banking and tourism services tend to compensate for the deficit and Luxembourg usually managed to notch up a healthy surplus on its current account balance of payments.

But greater efforts have had to be made to lessen the imbalance in trade, particularly with neighboring Belgium, where the deficit to Luxembourg's disfavor was over 24 billion francs in 1981.

Since 1976, Luxembourg has mounted a major campaign to draw new industry to the Grand Duchy, partly to compensate for the loss in jobs caused by the ARBED steel crisis and partly for the trade imbalance. During the period up to the end of last year, 47 companies have taken advantage of good industrial locations, certain tax advantages and a central geographical situation to set up or plan to set up business in the Grand Duchy. As of 31 December 1982, some 2,380 were employed with the new firms already in operation and a further 500 to 1,000 jobs in the pipeline.

The figures may sound small but in a country where 2,200 unemployed make up 1.7 percent of the workforce, and the Grand Duchy's highest ever unemployment rate, the numbers count for much. The new industries range from chemicals and plastics to glass and aluminium and will inject a fresh lease of industrial life into the northern and the more deprived southern regions of Luxembourg.

Also on the bright side, Mr. Santer said that government has managed to keep to its declared aim to pushing the budget deficit to below 3 percent of GDP, with 2.8 percent achieved in 1982 and 1.4 percent projected for 1983, although the ceiling for next year will be harder to adhere to.

Inflation has also been held relatively in check, limited to 9.4 percent in 1982 and 8.1 percent the previous year, thereby holding to within the government's declared ceiling of 10 percent.

—MICHAEL METCALFE

A $98-Billion Share In International Debt

(Continued From Page 7S)

took two years to reach an agreement," one banker said, angrily. "It really isn't good enough."

The depreciation of the Luxembourg franc brought other problems in its wake. Most Luxembourg banks have their capital denominated in Luxembourg francs while their assets are predominantly in dollars. As the Luxembourg franc sank against the dollar, so capital-to-assets ratios came under pressure. This put a brake on assets building and saved Luxembourg banks from some of the wilder follies, countenanced by banks in other countries.

The heaviest provisioners among the Luxembourg banks are the West German banks. In 1981, Commerzbank International declared no after-tax after-provisions profit. But the bank's pre-tax pre-provisions profit of 613 million francs was sufficient to propel it to 15th place in the ranking of the center's most profitable banks. Commerz International is a traditional lender to the West German construction industry, which was hard hit by the onset of the recession. The bank was also recovering from an earlier disastrous misjudgment over the path of interest rates. It had been caught in the embarrassing bind of lending long at low interest rates while funding short at high rates.

The fact that most West German banks in Luxembourg have been lending back into West Germany has meant that they, too, have had to make provisions against such corporate borrowers as AEG. Since Dresdner bank is AEG's lead bank, it is reasonable to assume that Dresdner's Luxembourg subsidiary, Compagnie Luxembourgeoise de la Dresdner Bank, would have to make substantial provisions against that risk.

But the importance of West German banks based in Luxembourg in providing funds for West German industry is decreasing. According to Bundesbank figures, West German banks based in Luxembourg provided 55.7 percent of all foreign loans to West German corporations in 1980. By the end of 1982, West German banks based in Luxembourg were accounting for barely 40 percent of foreign loans to West German corporations. Part of this change is due to the relative attraction of West German risk for banks of other nationalities. But part is also due to a deliberate shift in strategy on the part of the parents of the West German banks based in Luxembourg that have branches in London. "Our parent has deliberately shifted loans to London that we would normally have taken," said a senior West German banker. "That is because it still has room to increase its own portfolio rather than use us. That wasn't the case when international lending in its prime. They needed us for our ability to leverage up to 33 times our capital."

Few Luxembourg bankers expect to return to pure international lending if and when the present sovereign debt crisis passes. One reason will be due to the bobbling of the most important group of foreign banks in Luxembourg, the West German banks. Their parents have agreed with the West German supervisory authorities to consolidate their Luxembourg subsidiaries into their accounts. The most important effect of this measure is that the West German banks based in Luxembourg will have to reduce their capital to assets ratio from the 33-times figure they enjoy in the Grand Duchy to the 18-times figure that prevails in Germany.

Another reason for bankers' skepticism that Luxembourg will return to its former importance is the new nature of the Euromarket. In the Euromarket's early days, banks growth and profits came from asset building; today, that has changed. Bankers are now much more concerned with the performance of their assets and are wary of increasing them. Luxembourg bankers like to point out that the Grand Duchy is not just a booking center. But it does not seem to have the resources to cope with the new Euromarket.

International Herald Tribune
BUSINESS/FINANCE
MONDAY, JUNE 13, 1983

EUROBONDS

By BOB HAGERTY

Doubtful Over Rally Prospects, Dealers Trim Back Inventories

LONDON — Coming off last week's slump, Eurobond dealers are awaiting a cue from the U.S. bond market with much anxiety and little optimism. The gloom is so thick that investors who favor a contrary approach might want to take note.

Prices on elderly Eurodollar bonds fell by around ¾ to 1 point last week. General Motors Acceptance Corp.'s 10½-percent bonds maturing in 1990, for example, slid to 98⅝ from 99¼.

Dealers, disheartened about the prospects for a major rally, were tightening inventories built up earlier in the year. Investors made themselves scarce, figuring there was little risk that they were about to miss out on a boom.

At the end of the week, many dealers said the inventory pruning was likely to continue, especially because Eurobond yields still appeared low compared with those yields available in the U.S. market.

Even the relatively bullish were subdued. "The market is fishing around the bottom," one dealer said, "and we will have a pop up again, but it isn't likely to be anything dramatic."

The most popular anxieties of the week involved the closely related questions of whether rambunctious money supply growth was forcing the Federal Reserve to tighten up on credit and whether Paul A. Volcker would be reappointed chairman.

Until those questions are answered, reading the U.S. credit outlook will be difficult. "Ironically, I think the market would do a lot better if the Fed did tighten up," said Mark Turner, a vice president at Citibank. Such a move probably would boost interest rates further in the short run but also would remove uncertainty.

Should President Ronald Reagan turn out Mr. Volcker, the market would have new worries. "The market has grown accustomed to his face," one dealer noted.

Late Friday, the credit markets received a pleasant surprise: The Fed reported that the M-1 money supply grew a mere $100 million in the latest week. The market had feared a bloating of $2 billion or more. But next week's news is expected to be worse as tax refund money gushes in. And as one dealer remarked, "It will take more than one week of good news to improve sentiment in this market."

Against this background, several new issues sputtered last week.

State Bank of New South Wales, a new name in the market, got a withering welcome. Its $100 million of seven-year notes were priced at par, or 100, bearing 11¾ percent. They ended the week at about 97⅞, more than wiping out the 1¼-point commission allowed for underwriters.

Japan Air Lines offered $75 million of 10-year bonds priced at par and bearing 11 percent. That issue ended the week at about 98.

Both issues involved interest-rate swaps, in which the bond issuer trades its fixed-rate money for another party's variable rate funds. The need to time such issues for the other party's convenience makes them liable to come to market at an inopportune moment.

Harsh Medicine for Drug Company

Then there was the $125-million, 10-year issue from Richardson Vicks, a U.S. pharmaceutical company. Issued at par with a 11½-percent coupon, it slumped to around 97¾ by Friday afternoon. Since the paper is rated two grades below prime quality, "it needed an accommodating market," one of the managers conceded.

But one dealer was horrified that the maker of Vicks VapoRub could fail to soothe the ailing market. "How can you say no to that?" the dealer asked. "Your mother used to rub it on your chest."

No such cruel greeting was in store for the European Community. Its $1.5-billion issue of floating rate notes went on sale Friday morning. Despite the record size of the offering, the issue was half sold out by late in the day, Credit Suisse First Boston, the lead manager, reported.

The notes mature in seven years, but investors have the option of repayment after five.

The market's initial response was less reserved than that for Sweden's $1.2-billion issue, which set the previous record when it came out in January. Dealers said that the European Community was regarded as a slightly better risk than Sweden and that the Swedish issue paved the way for its successor. Back in January, noted Mitchell Shivers of Samuel Montagu & Co., "the market wasn't used to billion-dollar deals."

The issue is part of a $3.7-billion package the European Community is putting together to finance a loan for France. Most of the rest of the

(Continued on Page 19, Col. 1)

Eurobond Yields
For Week Ended June 8

Int'l inst. lg. term US$	11.95 %
Ind. long term, US$	11.96 %
Ind. medium term, US$	11.87 %
Can.$ medium term	12.71 %
French fr. medium term	12.99 %
Int'l inst. lg term yen	7.74 %
ECU medium term	12.29 %
EUA long term	10.24 %
Int'l inst. lg term FLx	10.46 %
FLx long term	10.13 %

Calculated by the Luxembourg Stock Exchange

Market Turnover
For Week Ended June 10
(Millions of U.S. Dollars)

	Total	Dollar	Non-dollar Equivalent
Cedel	6,800.20	5,810.90	989.30
Euroclear	10,024.30	9,274.00	650.30

Wall Street's Big Five in Treasury Debt

By Michael Quint
New York Times Service

NEW YORK — Wall Street is full of middlemen whose business is to bring buyers and sellers together and extract a profit along the way.

In the Treasury market, the world's largest securities market with more than five times the dollar volume of the New York Stock Exchange, middlemen have carved a special niche. Because there is no central trading floor for Treasury issues, a handful of little-known broker firms have evolved to execute trades between securities companies.

"Brokers are, in effect, an exchange," said Richard A. Spelke, senior vice president at Security Pacific National Bank of Los Angeles, which owns R.M.J. Securities, a government securities broker. "They provide the Treasury bond market with the same service that the New York Stock Exchange provides to the equity market."

R.M.J. and the four other major brokers in the Treasury market are crucial to the bond traders whose decisions help determine whether interest rates rise or fall. The investing public, whether a pension fund buying $100 million of bonds or an odd-lot buyer of $10,000 of Treasury bills, does business with a securities firm but seldom with one of these specialized brokers.

"The industry is moving toward increased use of brokers," Mr. Spelke said. "We see strong growth continuing, assuming that the federal deficit problem is not solved."

The Treasury brokers could be the only firms on Wall Street to rejoice over a $200-billion federal budget deficit. To them, large deficits mean big trading volume and large profits, whether prices are rising or falling. Although brokers do not publicize their revenues or profits, everyone in the business is said to be making a good living.

Security Pacific is not the only large financial company to see opportunity in the brokering business. A British company ac-

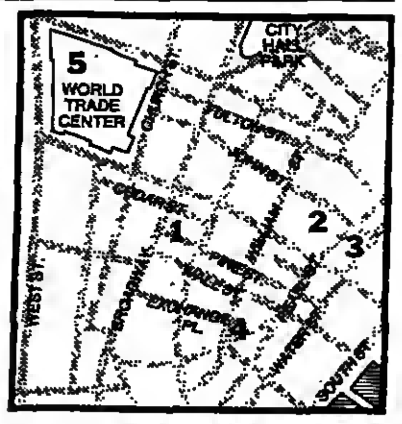
(Continued on Page 21, Col. 5)

Richard Jackson, president, R.M.J. Securities

Larry Saffer, executive vice president, Cantor, Fitzgerald Securities

Edmund Lunder, president, Fundamental Brokers

Wall Street's Network Of Government Securities Brokers



(1) **Garban Ltd.**
120 Broadway
First broker to display prices on video screens . . . Purchased for $26 million last May by Mills & Allen P.L.C., a diversified British company . . . Now employs 52 brokers.

(2) **Fundamental Brokers**
90 John Street
Founded in 1970 . . . largest broker of Treasury and agency securities, acquired in 1980 by Mercantile House Holdings P.L.C., a British financial services company . . . Employs 100 brokers.

(3) **R.M.J. Securities**
130 John Street
A division of Security Pacific National Bank since May 1982 . . . Formed in 1968, after the original company merged with Fundamental Brokers . . . 135 employees.

(4) **Chapdelaine & Company**
20 Exchange Place
Richard F. Chapdelaine started the firm in 1974 . . . Known to traders as "Chappy" . . . Smallest of the four brokers who serve only the major Government securities dealers, employing 60 brokers.

(5) **Cantor, Fitzgerald**
One World Trade Center
Started in 1972 . . . Does not serve only dealers, but transmits prices through Telerate Systems, and reaches 6,000 regional securities firms and other large investors . . . 46 brokers and an equal number of assistants.

The New York Times

BIS Session Opens Amid Debt Fears

Central Bankers Appear Divided Over Continuing Bridging Loans

Reuters

BASEL, Switzerland — Central bankers will confer at the annual meeting of the Bank for International Settlements Monday amid fears that some of their carefully assembled international rescue packages for debtor countries could fall apart.

In the past 12 months, central banks have agreed on more than $5 billion in emergency loans to countries unable to pay their debts. But some, such as Brazil, are having difficulty meeting the requirements and repayment schedules.

European central banking sources said a default in one of those loan packages could spark what is already being termed a "second wave" debt crisis.

Central banks are increasingly reluctant to be type-cast as "lender of last resort," stepping in to bail out countries when no one else will. But some central bankers see it as inevitable that they will have to extend more credits and relax conditions for repayment on those already arranged.

Since the BIS first became involved in the international debt crisis last year, it has played an increasing role in coordinating central bank bridging loans. The loans have effectively contained the crisis and given debtors breathing space while the International Monetary Fund and commercial banks negotiate comprehensive medium-term rescue packages.

But Fritz Leutwiler, president of the BIS and the Swiss National Bank, and Bundesbank President Karl Otto Pöhl have said the character of the BIS, effectively the central banks' own central bank, will be threatened if these credits become common practice.

Mr. Leutwiler indicated in February that it was time to halt BIS bridging credits and said a $500-million loan in preparation for Yugoslavia would be the last. But since his remarks, Hungary has received $100 million and Chile $350 million.

The sources said central bankers themselves are divided over the merits of continuing these operations. But there is general agreement that there could be little alternative if a major debtor such as Brazil — which owes about $90 billion to governments, banks and international organizations — fails to meet IMF targets and precipitates a second debt crisis.

BIS last week had to grant Brazil a repayment extension until the end of June on a $400-million installment of its bridging credit. It was originally due at the beginning of the month. Brazil is facing major problems with its debt package, particularly in obtaining short-term commercial bank credit.

Meanwhile, Argentina reported Sunday that it is making progress in negotiations with its 263 creditor banks for a $1.5-billion medium-term loan. Julio González del Solar, the president of the country's central bank, said: "There are no major problems now." The country was beginning to make June interest payments, bringing debt servicing up to date, he said.

Also, Miguel Mancera, head of Mexico's central bank, said that his country will complete repayment of a $1.85 billion bridging loan when it falls due in August.

Negative Investor Psychology, Not Fed's Actions, Pushed Up Rates

By Yla Eason
New York Times Service

NEW YORK — Interest rates rose last week not because the Federal Reserve tightened credit availability, but because market participants sold securities in the belief that a tightening had occurred. Negative investor psychology and behavior pushed rates up, several analysts concluded after reviewing Fed data released on Friday.

Leading to this conclusion was the report that banks ended the week with free reserves of $403 million on June 8. These reserves were more than were needed to satisfy the banks required reserve position at the Fed, therefore the federal funds rate should have been lower, analysts said.

Last week, however, there was widespread speculation that the Fed was behind the rate rise in an attempt to tighten credit growth. This interpretation caused many investors to sell government securities and raise rates to accommodate what they thought was a policy trend toward higher rates.

In addition, uncertainty over the direction of Fed policy caused many investors to retreat from buying, further depressing prices

U.S. CREDIT MARKETS

and prompting rate increases to an attempt to attract them back to the market.

The federal funds rate rose from 8.77 percent on June 1 to 8.84 percent on June 8, yet banks had excess or free reserves on deposit at the Fed every day during that statement week, according to a Fed official.

The federal funds rate, at which banks loan reserves to each other overnight, is one of the most closely watched daily indicators of Fed policy available to the market; the Fed can push the rate up or down by adding or withdrawing reserves from the banking system.

Since the rate rose without any apparent signs that the Fed was behind the increase, analysts now conclude that market forces drove it higher.

"It's an example of the effect market psychology can have to force up interest rates," said Raul Nicho, vice president of economic research at Money Market Services, a California based econometric forecasting firm.

Since reserves were higher than required, the Fed could have drained reserves from the system to offset the additions, but did not.

According to Bob Jones, chairman of Money Market Services, the Fed choose not to drain reserves because the market would have interpreted the action as an indication of tighter monetary policy.

He and other analysts said the fact that the Fed did not tighten was an indication that the Fed is being guided by growth in the monetary aggregate known as M-2, which measures currency and checks readily available for spending that is included in M-1 plus money market deposit accounts. This aggregate grew by $23 billion in May, still within the Fed's growth target.

The smaller-than-expected increase of $100 million in the M-1 was also encouraging to market participants, and prompted a sharp move to lower interest rates in the credit markets late Friday.

However, M-1 is still growing at 12.2 percent from May of last year, compared to the Fed's growth target range of 4 to 8 percent and this growth has prompted many analysts to suggest the Fed will move to reign in the growth.

"The free reserve position further proves there was never a tightening," said Cengiz Israfil, a money market economist at Morgan Guaranty Trust Co. "Fed policy is not to do anything on the basis of M-1 alone."

Jeffery R. Leeds, a Chemical Bank economist, agreed that the Fed had not tightened.

But, he said, "there is reason for the market to remain anxious … While the current money numbers still look good, the source of anxiety was the rapid surge in money growth and that has not gone away." He noted analysts expect M-1 for the week ended June 8 to rise by as much as $5 billion. The figure will be reported on Friday.

Mr. Leeds believes "we will continue to see rapid money growth until the Fed does decide to firm." He believes the continued evidence of stronger economic growth and expectation of inflation caused by a rapidly growing money supply will "force the Fed to step in sooner or later to restrain money growth."

Mr. Jones also believes the Fed should be tightening but have not done so "because they are afraid of the interest rate consequences."

U.S. Consumer Rates
For Week Ended June 10

Passbook Savings	5.50 %
6-Month Savings Certificates	9.69 %
Tax-Exempt Bonds Bond Buyer 20-Bond Index	9.04 %
Money Market Funds Donoghue's 7-Day Average	7.85 %
Bank Money Market Accounts Bank Rate Monitor Index	8.22 %
Home Mortgage FHLB average	13.00%

Third-World Strategy Shifts Seen at Unctad

Under Belgrade 'Big Top,' Poor Nations Seek Immediate Steps by Rich

By Paul Lewis
New York Times Service

BELGRADE — For the rest of this month, more than 3,000 delegates from 160 rich and poor countries will be letting off steam at one another about aid, trade and monetary matters in an immense, tent-like building on the banks of the Danube River.

The occasion is the sixth meeting of the United Nations Conference on Trade and Development, billed as a vast discussion on economic matters between the poor South and the rich North that happens only once every four years.

At such trade conferences, millions of words are spoken and mountains of paper consumed. The host country makes a killing from so many expense-account visitors — Yugoslavia cannily raised its motel rates 60 percent before the conference. But few decisions are made, because the conference's authority is limited to the field of raw materials. Still, the talk here will range across a much wider spectrum of subjects.

Gargantuan, time-consuming meetings also serve as a sounding board for North-South relations. They reveal subtle shifts in the way rich and poor countries approach one another. Already the debate at Unctad VI, as the meeting is termed, reflects significant changes in perceptions of the world economy.

In one of the major shifts, the developing world is altering its negotiating strategy for dealing with the rich.

Since the first oil price shock, the Group of 77 — the informal body in which developing countries coordinate their UN strategy — has been pressing for a major restructuring of the international financial system set up after World War II. The group wants to create what it calls a new international economic order, more responsive to the needs of the poor.

But this grandiose aim no longer has top priority. At the conference, the developing world for the first time is emphasizing a specific list of "immediate measures" that it wants industrial countries to agree to, in order to prevent the world's economic ills from worsening.

These measures include automatic debt relief, an increase in world liquidity through the International Monetary Fund, greater aid and private bank lending to developing nations and freer access for their exports to the markets of the rich.

"We are sharpening the priority we give to specific economic problems," said Zimbabwe's minister of finance and development, Bernard T.G. Chidzero.

This more pragmatic stand by the Group of 77 in part reflects its members' frustration with the meager results of their demands for a radical reshaping of the international economic order.

Far from winning a larger share of the pie, developing countries have found themselves shouldering the worst of the world recession, with declining growth and a slump in export earnings from raw materials.

Another reason for the South's new tone lies in the switch in leadership of the nonaligned movement when Prime Minister Indira Gandhi of India succeeded Fidel Castro of Cuba earlier this year.

The nonaligned movement has virtually the same membership as the Group of 77 and sets the broad political direction of its economic demands. Significantly, it was at March's summit meeting of nonaligned nations in New Delhi that the call for "immediate measures" first emerged, when Mrs. Gandhi also buried suggestions that the Soviet Union be declared the movement's "natural ally."

In the industrial West, the trade

(Continued on Page 19, Col. 2)

U.S. to Fight Merger Of Pay-TV Networks

By Sally Bedell Smith
New York Times Service

NEW YORK — The Justice Department plans to file a civil antitrust suit to block a proposed merger of the second and third-largest U.S. pay-television networks, Showtime and the Movie Channel.

The department's antitrust division, acting on a staff recommendation, has ruled in essence that combining the two channels into one would cause undue concentration in the pay-television business and stifle competition.

The proposed merger would be a joint venture of three film studios — Paramount Pictures; Warner Brothers, a division of Warner Communications, and MCA Inc. — and two companies involved in satellite entertainment, the American Express Co. and Viacom International. The plan represents a major challenge by Hollywood studios to Home Box Office, the largest U.S. pay-television network. It is now received by 12 million cable-TV subscribers.

The Justice Department's decision, announced Friday, comes after a four-month investigation by the staff of the antitrust division.

Unlike Home Box Office, which is highly profitable, Showtime, with 4 million subscribers, began making a profit only last year on estimated revenue of $192 million. The Movie Channel, with 2.3 million subscribers, is not believed to be profitable yet.

Showtime, owned by Viacom, has a fare similar to Home Box Office, offering movies, special programs, theatrical productions and series for a monthly fee paid by cable subscribers. The Movie Channel, owned by Warner Communications Inc. and American Express, offers movies to subscribers for a monthly fee.

The action by the Justice Department could also send the major Hollywood studios into new combinations and ventures that would comply with antitrust laws and at the same time give them a direct stake in the increasingly lucrative pay-television business that Home Box Office now dominates. The studios contend that because of its size, they are forced to do business with Home Box Office, which they say pays too little for their films.

Market Closing

Financial markets and banks in Hong Kong will be closed Monday and Wednesday for holidays.

CURRENCY RATES

Interbank exchange rates for June 10, excluding bank service charges.

	$	£	D.M.	F.F.	I.L.	Gldr.	B.F.	S.F.	D.K.
Amsterdam	2.859	4.52	112.11*	37.21*	0.1892	—	5.605*	134.83*	31.43*
Brussels (a)	51.05	80.65	19.998	6.648	3.3753*	17.847	—	24.0575	5.60
Frankfurt	2.5538	4.025	—	33.22*	1.688 x	89.22*	4.999*	120.25*	28.01*
London (b)	1.567	—	4.0096	12.0096	2377.81	4.4979	80.31	3.3313	14.3115
Milan	1,513.20	2,369.70	593.16	196.98	—	529.18	29.644	712.67	165.98
New York	—	1.568	0.3903	0.1297	0.066*	0.3483	0.02	0.4693	0.1096
Paris	7.6855	12.354	301.15*	—	5.086 x	268.80*	15.063*	362.00*	84.40*
Zurich	2.123	3.3405	83.145*	27.595*	0.1403	74.145*	4.1595*	—	23.285*
1 ECU	0.8969	0.565	2.281	6.8702	1,351.62	2.556	45.6108	1.8969	8.1521
1 SDR	1.06912	0.676444	2.7278	8.2167	1,617.85	3.0566	54.5786	2.2692	9.7269

Dollar Values

$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$	$ Equiv.	Currency	Per U.S.$
0.877	Australian $	1.1403	0.0221	Israeli shekel	45.425	0.4715	Singapore $	2.121
0.0557	Austrian schilling	17.975	0.0042	Japanese yen	240.075	0.92	S. African rand	1.087
0.0196	Belgian fin. franc	51.005	3.4965	Kuwaiti dinar	0.2938	0.0013	S. Korean won	776.70
0.8112	Canadian $	1.2328	0.4301	Malay. ringgit	2.325	0.0071	Span. peseta	142.445
0.1097	Danish krone	9.1125	0.1381	Norw. krone	7.2425	0.1311	Swed. krona	7.6305
0.1814	Finnish mark	5.515	0.0892	Phil. peso	11.2108	0.025	Taiwan $	40.02
0.0119	Greek drachma	84.25	0.0098	Port. escudo	102.00	0.0436	Thai baht	22.9358
0.1347	Hong Kong $	7.425	0.2666	Saudi riyal	3.4986	0.2723	U.A.E. dirham	3.6725
1.2363	Irish £	0.8076						

£ Sterling: 1.2649 Irish £

(a) Commercial franc (b) Amounts needed to buy one pound (*) Units of 100 (x) Units of 1,000 N.Q.: not quoted; N.A.: not available.

International Bond Prices — Week of June 9

Provided by White Weld Securities, London, Tel.: 623 1277; a Division of Financiere Credit Suisse - First Boston

(Continued from Page 6)

Amt	Security	%	Middle Mat	Price	Yield Ave Mat	Yield Life	Yield Curr
dm 150	Banco Nacional Obras	7	'84 Oct	93 1/4	12.74		7.51
dm 100	Banco Nacional Obras	8	'86 Nov	97 1/4	8.95	9.61	8.23
dm 105	Comision Fed.Electr.	5	'84 Jun	95 1/2	13.04		[illegible]
dm 100	Comision Fed Electr	7 1/4	25 Nov	[illegible]	12.18	15.46	[illegible]
dm 150	Comision Fed Electr	6 3/4	'88 Apr	79	12.71	16.37	8.54
dm 100	Nacional Financiera	5 3/4	'84 Mar	97 1/2	12.45		[illegible]
dm 150	Nacional Financiera	11	'90 Mar	[illegible]	13.29		12.22
dm 100	Pemex	8 3/4	'83 Dec	98 3/4	11.50		[illegible]
dm 100	Pemex	7	'86 Sep	95 1/2	[illegible]		7.48
dm 100	Pemex	7	'86 Jan	[illegible]	[illegible]		7.95
dm 150	Pemex	11	'90 Feb	95 1/2	[illegible]		11.52
	MISCELLANEOUS						
dm 100	African Developm Bank	7 3/4	'86 Jan	96 1/2	8.32		7.87
dm 100	African Developm Bank	5	'87 Nov	100	7.90		[illegible]
dm 100	Banque Ext D'Algerie	7 1/2	'83 Oct	100	7.48	7.49	7.50
dm 40	Ind Mining Dev Bank	7 1/2	'85 May	97	9.26	9.84	7.73
dm 120	Ind Mining Dev Bank	7 3/4	'87 Jul	97 1/4	11.79	15.38	[illegible]
dm 100	Indonesia	7	40 Oct	[illegible]	8.64		7.14
dm 100	Korea Developm Bank	7 1/4	40 Dec	[illegible]	8.72		7.40
dm 20	Malaysia	7	'94 Jan	96 1/2	7.53	7.93	7.06
dm 100	Malaysia	6 1/2	25 Sep	96 1/2	8.25		6.74
dm 150	Magal Finance	6 1/4	'90 Jan	92 1/4	7.77	8.54	6.78
dm 100	Natl Bank Of Hungary	6 1/2	'85 Nov	95	[illegible]		6.54
dm 100	Trans Euro.Nat.Gas Pl	5	'93 Nov	15 3/4	8.03	8.05	6.62
	NEW ZEALAND						
dm 100	New Zealand	6 3/4	'84 Feb	100 1/4	6.35	6.35	6.73
dm 200	New Zealand	6 1/4	'84 May	100 1/4	5.95		6.23
dm 250	New Zealand	3 1/4	'86 Mar	99 1/2	5.85		8.22

CONVERTIBLE BONDS

ZERO-COUPON BONDS

— HIGHEST CURRENT YIELDS —
On convertibles having a conversion premium of less than 10%

— Explanation of Symbols —

CN$	Canadian Dollar	SDR	Special Drawing Rights
ECU	European Currency Unit	Y	Yen
EUA	European Unit of Account	LFR	Luxembourg Franc
L	Pound Sterling	SFR	Swiss Franc
DM	Deutsche Mark	FF	French Franc
NKD	Norwegian Kroner - DM		

Chicago Exchange Options
For the Week Ending June 10, 1983

American Exchange Options
For the Week Ending June 10, 1983

All of these securities have been sold. This announcement appears as a matter of record only.

NEW ISSUE

June 6, 1983

5,000,000 Shares

Florida Federal
Savings and Loan Association

Common Stock

The 5,000,000 shares constitute a portion of the 8,850,273 shares of common stock to be issued by Florida Federal Savings and Loan Association upon its conversion from a federal mutual to a federal stock savings and loan association. The remaining shares have been subscribed for through a subscription offering.

Kidder, Peabody & Co. Incorporated

Merrill Lynch White Weld Capital Markets Group — Merrill Lynch, Pierce, Fenner & Smith Incorporated
Bear, Stearns & Co.
A. G. Becker Paribas Incorporated
Alex. Brown & Sons
Dillon, Read & Co. Inc.
Donaldson, Lufkin & Jenrette Securities Corporation
Drexel Burnham Lambert Incorporated
Hambrecht & Quist Incorporated
E. F. Hutton & Company Inc.
Lazard Frères & Co.
Prudential-Bache Securities
L. F. Rothschild, Unterberg, Towbin
Salomon Brothers Inc
Shearson/American Express Inc.
Smith Barney, Harris Upham & Co. Incorporated
Wertheim & Co., Inc.
Dean Witter Reynolds Inc.
Atlantic Capital Corporation
Basle Securities Corporation
A. G. Edwards & Sons, Inc.
Allen C. Ewing & Co.
Montgomery Securities
Oppenheimer & Co., Inc.
Raymond, James & Associates, Inc.
Robertson, Colman & Stephens
Sogen Securities Corporation
Thomson McKinnon Securities Inc.
Jerry Williams, Inc.
Daiwa Securities America Inc.
EuroPartners Securities Corporation
Robert Fleming Incorporated
Kleinwort, Benson Incorporated
The Nikko Securities Co. International, Inc.
Nomura Securities International, Inc.
Yamaichi International (America), Inc.
Baring Brothers & Co., Limited
Cazenove Inc.
Compagnie de Banque et d'Investissements, CBI
Morgan Grenfell & Co. Limited
Sal. Oppenheim jr. & Cie.
Pictet International Limited
Vereins- und Westbank Aktiengesellschaft
M.M. Warburg-Brinckmann, Wirtz & Co.
New Japan Securities International Inc.
Nippon Kangyo Kakumaru International, Inc.
Okasan Securities Company Limited
Sanyo Securities America Inc.

Dealers Cut Inventories

Japanese Visit Iran for Talks on Project

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Dealers Cut Inventories

(Continued from Page 17)

ackage is expected to come from a ·ndicated loan. For that reason, ıe issuers hope that banks will ass along most of the notes to ther investors and save their appetites for big slices of the loan.

One manager estimated that bout half the issue was going to anks. Japanese banks, in line with ıeir usual liking for high-quality oaters, were reported to be especially eager for the EC paper.

Meanwhile, a group of banks nd securities houses led by Union ank of Switzerland (Securities) td. was lining up an unusual quity offer by Bell Canada Enterrises, the parent of Bell Canada.

The company, which is Canada's eading telephone services concern nd owns 53.4 percent of the quipment maker Northern elecom, plans to offer about 12 nillion shares. The exact amount vill not be determined until just efore the issue is priced on June 2, the managers say.

The unusual feature is that three eparate underwriting syndicates re peddling the paper: one for Canada, one for the United States nd one for the rest of the world.

The third group, expected to ake about two million shares, is ed by Bell Canada's usual Eurobond managers. The issue gives Bell Canada a chance to cash in on he good name it has established in he Eurobond market.

At the same time, the company an reward its faithful bond underwriters with attractive commissions. "It's a lovely way of putting ommissions in the pockets of forign underwriters," said one banker not involved in the offer.

The European issuers hope to ell their allotment of the shares, to e quoted in U.S. dollars, at close o the prevailing market price on une 22. One underwriter involved n the deal estimated that a disount of at least 25 cents will be ecessary. On Friday, Bell Canada hares closed in New York at 21.375.

International Herald Tribune

Carl Gewirtz's column will resume next week.

Japanese Visit Iran For Talks on Project

Reuters

TEHRAN — A Japanese delegation is holding talks with the Iranian government on completing the ig petrochemical complex at Bandar Khomeini on the Gulf, Japanese sources said Saturday.

A Japanese consortium led by he Mitsui group agreed in principle last month to resume work on he complex, which was 85-percent omplete when fighting between ran and Iraq halted construction n September 1980.

NEW EUROBOND ISSUES

Straight	FRN	Warrant	Conv.	Borrower	Amount (millions)	Maturity	Coupon %	Price	Yield At Offer	Terms
•				Council of Europe	DM 50	1988	open	open	—	Coupon indicated at 8⅜%. Noncallable. Terms to be set June 15.
•				Council of Europe	DM150	1993	open	open	—	Coupon indicated at 8⅝%. First callable in 1991 at 101. Sinking fund to start in 1988. Terms to be set June 15.
•				Copenhagen Telephone	DM100	1993	8¾	100	8¾	
•				Isveimer	DM100	1988	8½	100	8½	
•		•		Rhythm Watch	DM 50	1988	open	open	—	Coupon indicated at 6%. Each 4,000 DM note carries a warrant exercisable into 1,000 shares at an anticipated 2.5% premium. Terms to be set June 13.
•				Dart & Kraft Finance	NZ$ 10	1988	15¼	99½	15.40	Noncallable.

Third-World Strategy Shifts Seen at Unctad

(Continued from Page 17)

conference has already shown that nothing concentrates the capitalist mind so wonderfully on the problems of the poor as the threat of a banking crisis and a threatened recovery.

It was the realization last summer that Mexico, Brazil and Argentina were about to drown in a sea of debt, taking much of the U.S. banking system with them, that caused the Reagan administration to reverse itself overnight and back a bigger International Monetary Fund and more lending to the Third World.

Since then, the industrial world has come to realize that its own hopes of economic recovery are inextricably bound to economic development in the Third World. The notion of interdependency is finally being taken seriously. The argument runs like this:

The Western upturn will fail if the Third World cuts back on imports. But to import, it needs money. So the IMF must be enlarged and banks encouraged to continue lending. But banks will not lend unless they see developing countries starting to earn their way out of debt. And the Third World cannot export if the industrial world goes protectionist, unless new markets are opened up to its industry in return. So the better-off developing countries must also reduce their protectionism.

Such linkages imply that both North and South must act together to insure global economic recovery and bury the idea that an upturn in the West would gradually enrich the Third World too.

But differences remain on whether North and South should completely recast the international economic system or merely tinker with it.

While the Third World wants automatic debt relief over the next two years, the West still prefers a case-by-case approach, though it does not rule out a new approach if this proves necessary. As Gordon Streeb, the assistant secretary of State who is the U.S. delegation leader at Unctad VI, said: "If, for example, the current efforts to prevent a debt crisis are not sufficient, there will be a serious look at whether we need to do something more fundamental — a greater injection of liquidity, or so forth."

Another difference between North and South is over Unctad's competence. Northern countries want to safeguard the authority of international bodies like the IMF, the World Bank and the General Agreement on Tariffs and Trade, arguing that each must be left to decide on changes in the fields under its jurisdiction. But the South wants the trade conference to adopt resolutions urging these bodies to increase aid disbursements, issue more Special Drawing Rights, and so on.

Commodity price supports also are likely to be a topic of lively discussions at Unctad.

Originally, the Third World wanted to create a series of commodity agreements that would lift raw material prices. Such schemes were a key element in the Third World's early ideas for a new international economic order.

Finally, a more modest scheme was agreed upon. This provides for Unctad countries to chip in $750 million to create a "common fund" that then would borrow money on the private market to finance the costs of price stabilization schemes for up to 18 commodities ranging from bananas to phosphate rock.

But the prices set under the schemes must be approved by both producing and consuming countries. The aim is to prevent wide price swings by withholding stocks when demand is weak and releasing them as it strengthens.

So far only five such agreements have been made, but recession has wrecked two of them in the last two years and demonstrated that the other three could provide producers with only very limited protection.

The tin agreement is generally accepted as the most successful, largely because there are only a few producers and all of them can afford to withhold substantial stocks from the market. The main producers are Malaysia, Bolivia, Thailand and Indonesia. Currently they are being forced to stockpile roughly half their production to defend the minimum price.

Although coffee prices have fallen, Unctad thinks the international coffee agreement has limited the decline to about half what it would otherwise have been. But the agreement is unusual since it is policed by the United States and all the Western industrial member countries that are committed to buy coffee only from producers belonging to the agreement. For their part, the producers must cut back exports if prices threaten to fall below the floor price.

The natural-rubber agreement has also managed to stop prices from falling through its floor level. But this was set very far below the actual level of world prices when the agreement was drawn up in 1979. As a result, world prices have still declined by 60 to 70 percent without wrecking the agreement.

The sugar and cocoa agreements were swept away by the world recession, and the chances of reaching agreement oo workable schemes for other commodities are considered slight.

So the West Europeans have hit on an easy way to score points with the Third World at Unctad VI. They praise the $750 million commodities plan, safe in the knowledge that it is unlikely to alter market forces. The United States remains hostile to the whole idea of tampering with markets.

Eagle Computer Is One Example Of How Issues Can Be Rescinded

By Vartan Vartanig
New York Times Service

NEW YORK — The unexpected can ruin the best of plans.

Last Wednesday Eagle Computer Inc., a successful new computer company in Los Gatos, California, made its initial public offering of stock to the public — always a proud day for a fledgling company. The 2.75 million shares were offered at $13 in the over-the-counter market and rose to $17 before closing at $15.50. Hours later, the company's president and chief executive officer, Dennis R. Barnhart, 40 years old, died in a automobile crash.

Eagle Computer's directors decided to rescind the stock offer and said they planned to make it again after the prospectus and registration statements could be revised to reflect the changes in management.

When an issue is rescinded, it is done in the time period, usually a week, between the "effective date," when the price is declared and selling and trading begin, and the "closing date," when the company actually collects its money and distributes its securities through an underwriter to buyers.

Trading done between those two dates is done on a "when-issued" basis so that if the offer is withdrawn, any trades in the secondary market are, in effect, canceled.

"Everyone starts even. It's like it never happened," said J. Perry Ruddick, executive vice president of Smith Barney, Harris Upham Inc. "That's the ultimate description of paper profits."

Rescissions have been made for both stock and debt issues. Such a decision to withdraw an offer because of adverse developments is not to be confused with offers — usually relatively risky ones — that are canceled because they are offered on a "best efforts" basis that gives the underwriter the right to cancel the whole transaction if there is insufficient buyer interest.

Although it means more paperwork and added costs, the decision to rescind an offer is made to forestall potentially expensive lawsuits charging the company with failing to disclose material developments that might hurt performance.

In the case of Eagle Computer, Mr. Barnhart's death could be considered a significant development because he had a direct hand in building the desktop computer company, especially since his ascension to the top spot in May 1982. However, some analysts were confident that he had built a strong enough management team for the company to survive.

A variety of other reasons have led to rescissions in the past. Chief among those reasons is a change in the profit picture. For example, Computer Consoles Inc. decided to rescind a $75 million convertible issue earlier this year when its expectations for future business cooled, according to Frederick H. Joseph, executive vice president of Drexel Burnham Lambert Inc. After repricing the issue, the company was able to sell $80 million of securities a week later, he said.

Some reasons for canceling or postponing an issue are a little more unusual. One company, after its stock offering became effective, postponed an issue because it discovered that its new $60 million building did not precisely comply with zoning laws, Mr. Joseph recalled. "They weren't going to tear it down, but it was a horrendous risk until it got straightened out," he said.

Over-the-Counter

NEW YORK (AP)-Weekly Over the Counter stocks giving the high, low, and last bid prices for the week with the net change from the previous week's last bid prices. All quotations supplied by the National Association of Securities Dealers, Inc., are not actual transactions but are representative interdealer prices at which these securities could have been sold. Prices do not include retail markup, markdown or commission.

Sales supplied by NASD.

Treasury Bills

Consolidated Trading Of AMEX Listings

Week Ended June 10

Consolidated Trading Of NYSE Listings

Week Ended June 10

Kredietlux Indices June 10

(Continued on Page 21)

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Closing Prices June 10, 1983

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Over-the-Counter

NASDAQ NATIONAL MARKET

(Continued From Page 20)

Sales in 100s	High	Low	Last	Net Ch'ge
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Sales in 100s	High	Low	Close	Net Ch'ge
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

	Sales in 100s	High	Low	Last	Net Ch'ge
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Treasury Debt Brokers

(Continued from Page 17)

quired Fundamental Brokers in 1980, and Garban Ltd. was bought by another British concern in early May. Chapdelaine & Co. and Cantor, Fitzgerald Securities Corp. are the only two major brokers of Treasury issues that remain independent.

Although bond brokers have existed almost as long as bonds, they were not a major factor in the Treasury market until about 10 years ago. Today, these firms dominate the market:

• Garban. The firm was founded in 1974, and its staff has since grown from three or four brokers to 52 today, according to Stephen Tilton, its president.

The name Garban is taken from the first letters of the Garvin Bantel Corp., a broker of corporate bonds with whom it was affiliated until it was sold last month for $26 million to Mills & Allen, a London-based company.

In 1974, Garban became the first broker to list prices of Treasury issues on video screens. It was able to do so after it lured personnel from Telerate Systems, a financial information company that electronically publishes a wide variety of financial information.

• Fundamental Brokers. This is the largest broker in the Treasury market. It was founded in 1970 by Vincent W. Griffo and "four guys who literally built their own desks," said Edmund Lunder, president. Since then, the desks have been replaced and the number of brokers has grown to 100.

In 1980, Fundamental Brokers was acquired by Mercantile House Holdings, which like Mills & Allen had brokerage experience in the foreign exchange markets.

• R.M.J. Securities. It was created in 1968 when Horris E. Hoffman sold his government bond brokering business to a group of employees, who used their first names to identify the firm, according to Richard Jackson, the current president.

Since becoming a division of Security Pacific in May 1982, it has expanded to 135 employees, up from 60. Mr. Spelke estimated that it was the second-largest broker of Treasuries.

• Chapdelaine & Co. The firm is owned by Robert F. Chapdelaine, was started in 1974 with a nucleus of three brokers. It is the smallest of the four that serve only the major government securities dealers. It employs 60 brokers.

• Cantor, Fitzgerald. Unlike the other established government securities brokers, it does not confine its service to the three dozen primary dealers of Treasury issues. By showing bid and asked prices over the video screens of Telerate, in which it has a substantial interest, Cantor reaches a broad group of more than 6,000 domestic Telerate subscribers.

• Newcomb Securities. This is the newest and by far the smallest broker in the government market. It provides a service similar to Cantor's except that it uses the video screens and communications network of Reuters.

The profits for these firms come from extracting a tiny fee — $78 per $1 million of Treasury bonds — on an enormous and rapidly growing volume of trading.

According to the Federal Reserve Bank of New York, the three dozen major dealers in government securities have traded about $40 billion of Treasury securities a day in recent months, with about half the business going through brokers. In 1974, average daily volume was only $3.6 billion and brokers were such a minor force that the Fed did not even publish data about their participation.

Because brokers have no stake in the market and make trades as agents, not principals, the business is viewed as one of relatively low risk, without the stress of trading.

Securities dealers who are in a broker's system use the screens to list the price and amounts of issues they want to buy or sell.

Actual trading is still done the old-fashioned way — an oral agreement between the broker and the trader over the telephone. And it is done fast, since bid and asked prices are good for only a limited time on a first-come, first-served basis.

Despite the advent of computers and video screens, "the business is basically a mechanical one of bringing buyer and seller together," Mr. Lunder said.

BUSINESS BRIEFS

Fed Expected to Set Requirement For Capital in Multinational Banks

WASHINGTON (Reuters) — The Federal Reserve Board and the office of the U.S. Comptroller are expected to announce on Monday a proposal to impose capital-adequacy rules that would affect the 17 largest U.S.-based multinational banks.

The Fed staff and the comptroller's office have agreed to seek a requirement that banks with at least $5 billion in assets maintain capital equal to 5 percent of the banks' total assets, according to bank regulatory sources. The proposal is expected to be adopted by the Fed's board of governors at a meeting Monday.

Most of the banks that would be affected already maintain capital levels at or near the 5-percent level, but regulators hope the new requirement will head off a move in Congress to seek even tighter limits.

Volcker Reappointment Predicted

WASHINGTON (NYT) — Paul A. Volcker, the Federal Reserve Board chairman, "has a very good chance of reappointment," Preston Martin, vice chairman of the Fed, said Friday.

Mr. Martin was himself a candidate for the chairmanship. His comment added to the growing view that Mr. Volcker would be reappointed, a view that was enhanced when Martin S. Feldstein, the chairman of the Council of Economic Advisers, endorsed Mr. Volcker on Friday.

Greyhound to Sell Armour Food

NEW YORK (NYT) — The Greyhound Corp., asserting that the wages it pays its union employees are too high for it to compete in the meat-packing industry, has disclosed plans to close down or sell its Armour Food subsidiary. It set oo date for the closures.

Greyhound, a diversified transportation, consumer products and food company, said Friday that negotiations were under way with some potential buyers of the 13 Armour plants affected. John W. Teets, Greyhound's chairman, said be believed that "a sale can be negotiated in the next several months" at a price that would have "oo significant effect on per-share earnings." Greyhound's move had been expected.

James Dowling, an analyst for Shearson/American Express, said it was not possible to determine what Armour's assets would bring to Greyhound. Last year, Armour, which accounts for 40 percent of Greyhound's total revenue, earned $13.2 million on revenue of $2 billion.

U.S. Cuts Wheat Forecast Again

WASHINGTON (AP) — Analysts in the U.S. Agriculture Department have slightly lowered their already reduced estimates for the 1983 winter wheat crop. They now project a harvest of 1.88 billioo bushels, down from last month's estimate of 1.89 billion.

A harvest of that size would still be the fourth best on record. Based on June 1 field surveys, the department said the crop remained in fair to good condition across most of the nation. The lowered estimate is partly a reflection of the success of a new U.S. acreage-reductioo program, under which farmers receive surplus farm products for taking land out of production.

The department estimated worldwide 1983-1984 grain production at 1.64 billion metric tons, or about 60.2 billion bushels, down from the record set last year of 1.68 billion metric tons. The projection for the total Soviet grain harvest was left unchanged at about 200 million metric tons.

INTERNATIONAL EXECUTIVE POSITIONS

Published every Monday, this is a compilation of senior positions published in the INTERNATIONAL HERALD TRIBUNE and other selected publications. Comments concerning this feature can be addressed to Juanita Caspari in Paris.

POSITION	SALARY	EMPLOYER	LOCAT.	QUALIFICATIONS	CONTACT	Source
GENERAL MANAGER Indonesia	Excellent	The contracting division of large int'l corp.	Indonesia	Bonnus. exp. in int'l contracting; practical exp. in field construction work & in managing contracts & their execution.	Box D 2009, International Herald Tribune, 92521 Neuilly Cedex, France.	I.H.T. 2-6-83
V.P. INT'L (1) London (1) Frankfurt	$60,000	A prestige, highly successful, $200 million American co.	London & Frankfurt	Strong sales/mktg. exp. with ability to recognize & maximize mktg. opportunities.	Jim Dean, Fox-Morris, One Penn Plaza, Suite 2125, New York, N.Y. 10119.	I.H.T. 2-6-83
PURCHASING MANAGER in Europe		Wendy Hamburgers.	London, extensive travel	Extensive purchasing exp., particularly in food ind.; together with proven negotiating skills; Eng., Ger.	Mr. John Rome, Wendy Restaurants, 140A, Gloucester Mansions, Cambridge Circus, London WC2H 8HD.	I.H.T. 2-6-83
PRESS & INFORMATION OFFICER		Int'l org. in electrical & electronics field.	Geneva	Eng. mother-tongue + Fr., prev. exp. in the information field & a bkgd. of writing skills.	C 18-115258, Publicitas, CH-1211 Geneva 3.	I.H.T. 2-6-83
CONSULTANCY/ AUDIT MANAGER	To D.M. 150,000	Two billion dollar U.S. multinational group.	W. Germany	35 +; grad. qual. accountant prob. with strong manuf./engineering bkgd.; Eng. + at least one Eur. lang.	Ref. 6890, Lloyd Chapman As., 123 New Bond Street, London W1Y 0HR. Tel.: Tel.: 01-499 77 61.	Sunday Times 5-6-83
MANAGER FOR EUROPE	Not less than £20,000 negotiable	Major division of privately owned group (food ind.)	London	Mature; 35-45; trading/broking bkgd. with profit accountability & demonst. achievement record; Eng. + Fr.	James Allen, Personnel Selection, 46 Drury Lane, Solihull, West Midlands B91 3BJ.	Sunday Times 5-6-83
INTERNATIONAL MARKETING		ICI.	Cheshire	Several yrs' consumer or industrial mktg. exp.; mid-late 20s; good honours deg.; outstanding calibre.	Ref. 828/6, Charles Barker, 30 Farringdon Street, London EC4A 4EA. Tel.: 236 05 88.	Sunday Times 5-6-83
RESPONSABLE MARKETING EUROPEEN		Parker Hannifin Rak (hydraulique/ pneumatique).	Haute-Savoie, France	Professionnel confirmé en mktg. de produits industriels; fr., angl. +; 30/40; voyages intensifs en Europe.	Parker Hannifin Rak, B.P. 482, 74108 Annemasse Cedex, France.	L'Express International 10-6-83

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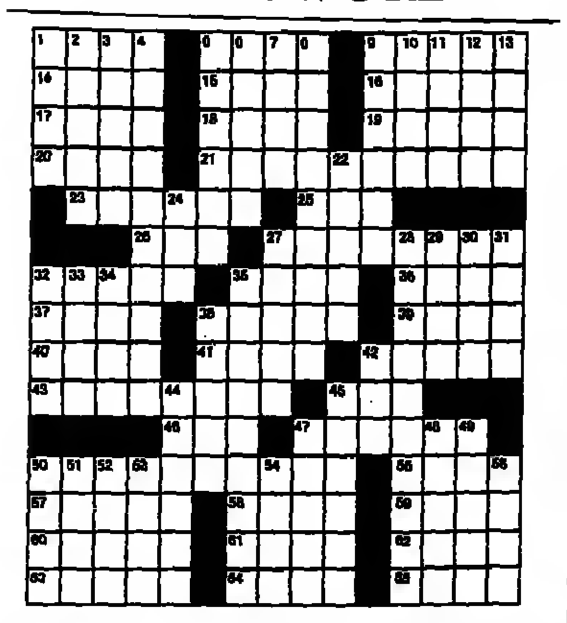
CROSSWORD



ACROSS

1 Glenn from Quebec
5 Fitzgerald specialty
9 Participate at a bee
14 Notable in "The Wizard of Oz"
15 Ripped
16 Desi's daughter
17 Where Surma is
18 King or Sates
19 Illinois city
20 Sound from a wind chime
21 Site in a Fonda-Hepburn film
23 Someone from Enid
25 Tel. line
26 Head signal
27 Ascendancy
32 Explosion
35 A star of "Come Back to the 5 & Dime . . ."
36 Mata ——
37 A Kennedy
38 "I have become—— name": Rukeyser
39 Actor Richard
40 To the sheltered side
41 Bombast
42 Building material
43 Joyful
45 Nautical dir.
46 "Limb of the devil"
47 One of four in an Alda title
50 Hepburn film: 1935
55 Granny or sheepshank
57 Peace advocates
58 Certain biog. sketch
59 Prefix with colon or formal
60 Nautical command
61 Trick
62 Latin abbr.
63 Yiddish gossip
64 Require
65 Actor Franchot

DOWN

1 Motorist's headache
2 Nomad's delight
3 A mammal, for short
4 Hepburn film: 1944
5 Put on a play
6 Distort
7 Russian sea
8 Most delicate
9 Angles
10 Succulent part of fruit
11 Outside: Comb. form
12 Hepburn's "The —— in Winter"
13 Advance
22 —— oneself (endeavor)
24 To no degree
27 Prop in 28 Down
28 Hepburn film: 1957
29 Plummer role
30 Snatch
31 One, in Bonn
32 Blow one's own horn
33 Lounge
34 Not ashore
35 Impose restrictions
38 Fragrance
42 Lawyers' org.
44 Nap
45 Settled in cozily
47 It can be "your umbrella"
48 —— a customer
49 "—— is an island . . ."
50 "An apple —— . . ."
51 Hepburn TV movie "—— Among the Ruins"
52 Russian czar
53 "—— la vie"
54 Nichols hero
56 Roofing item

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DENNIS THE MENACE

"WHY DON'T YOU *GIVE UP,* MARGARET? I ALREADY GOT A *MOTHER* AN' I DON'T WANT A SISTER.. AN' I'M NEVER GONNA GET MARRIED!"

JUMBLE

THAT SCRAMBLED WORD GAME by Henri Arnold and Bob Lee

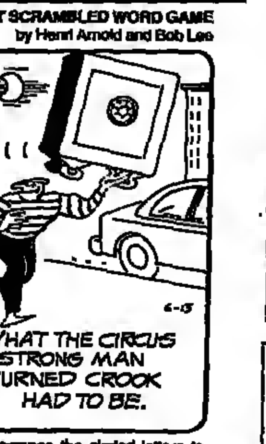
Unscramble these four Jumbles, one letter to each square, to form four ordinary words.

KANLY

CAXTE

REJESY

RIMPIA



Now arrange the circled letters to form the surprise answer, as suggested by the above cartoon.

Answer here: A ◯◯◯ OF "◯◯◯◯◯◯"

(Answers tomorrow)

Friday's | Jumbles: GULCH TIGER HERMIT PUNDIT
Answer: What that congressman always did when he finally got the floor—HIT THE CEILING

WEATHER

EUROPE

	HIGH C	HIGH F	LOW C	LOW F	
Algarve	26	79	16	61	cl
Amsterdam	19	66	9	48	cl
Athens	27	81	16	61	fr
Belgrade	17	63	14	57	r
Berlin	26	79	12	54	fr
Brussels	23	73	11	52	cl
Bucharest	17	63	15	59	r
Budapest	23	73	13	55	fr
Copenhagen	19	66	16	61	o
Costa Del Sol	39	102	25	77	o
Dublin	15	59	8	46	sh
Edinburgh	18	64	8	46	fr
Florence	30	86	14	57	fr
Frankfurt	26	79	11	52	cl
Geneva	25	77	14	57	cl
Helsinki	20	68	8	46	cl
Istanbul	21	70	14	57	fr
Las Palmas	25	77	19	66	o
Lisbon	26	79	14	57	o
London	20	68	12	54	fr
Madrid	35	95	20	68	cl
Milan	28	82	17	63	fr
Moscow	20	68	10	50	cl
Munich	23	73	9	48	cl
Nice	26	79	20	68	cl
Oslo	19	64	13	55	fr
Paris	25	77	14	57	fr
Prague	24	75	9	48	fr
Reykjavik	9	48	3	37	fr
Rome	30	86	14	57	fr
Stockholm	20	68	12	54	o
Venice	26	79	15	59	fr
Vienna	23	73	13	55	fr
Warsaw	23	73	9	48	cl
Zurich	23	73	13	55	cl

MIDDLE EAST

	HIGH C	HIGH F	LOW C	LOW F	
Ankara	25	77	5	41	cl
Beirut	27	81	20	68	fr
Damascus	28	82	14	57	fr
Jerusalem	22	73	14	57	fr
Tel Aviv	28	82	18	64	fr

OCEANIA

	HIGH C	HIGH F	LOW C	LOW F	
Auckland	13	55	10	50	o
Sydney	17	63	5	41	cl

ASIA

	HIGH C	HIGH F	LOW C	LOW F	
Bangkok	28	82	25	77	r
Beijing	32	90	23	73	fr
Hong Kong	34	93	26	79	cl
Manila	35	95	26	79	cl
New Delhi	35	95	23	73	fr
Seoul	19	66	16	61	r
Shanghai	25	77	22	72	r
Singapore	31	88	26	79	sh
Taipei	34	93	26	79	o
Tokyo	18	64	16	61	r

AFRICA

	HIGH C	HIGH F	LOW C	LOW F	
Algiers	32	90	20	68	o
Cairo	33	91	19	66	fr
Cape Town	14	57	4	39	fr
Casablanca	28	82	21	70	o
Harare	-	-	-	-	n.a.
Nairobi	27	81	13	55	cl
Tunis	26	79	19	66	fr

LATIN AMERICA

	HIGH C	HIGH F	LOW C	LOW F	
Buenos Aires	12	54	0	32	cl
Lima	29	84	23	73	o
Mexico City	38	100	8	46	pc
Rio de Janeiro	28	77	21	70	o
São Paulo	24	75	15	59	o

NORTH AMERICA

	HIGH C	HIGH F	LOW C	LOW F	
Anchorage	16	61	9	48	cl
Boston	27	81	18	64	fr
Chicago	33	91	20	68	fr
Denver	27	81	10	50	pc
Detroit	34	93	16	61	fr
Honolulu	30	86	21	70	fr
Houston	31	88	20	68	pc
Los Angeles	23	73	17	63	pc
Miami	32	90	24	75	st
Minneapolis	32	90	20	68	pc
Montreal	23	73	9	48	cl
Nassau	30	86	21	70	fr
New York	31	88	18	64	fr
San Francisco	23	73	11	52	fr
Seattle	33	91	10	50	pc
Washington	32	90	19	66	fr

cl—cloudy; fo—foggy; fr—fair; h—hail; o—overcast; pc—partly cloudy; r—rain; sh—showers; sn—snow; st—stormy

MONDAY'S FORECAST — CHANNEL: Generally calm. FRANKFURT: Overcast with intermittent rain. Temp.22-10 (72-50). LONDON: Partly cloudy, becoming overcast late in the day. Temp.17-10 (63-50). MADRID: Fair. Temp.35-20 (95-68). NEW YORK: Fair. Temp.32-20 (90-68). PARIS: Partly then mostly cloudy. Temp.23-12 (73-54). ROME: Fair. Temp.26-14 (79-57). TEL AVIV: Fair. Temp.30-22 (86-72). ZURICH: Partly cloudy. Temp.22-14 (72-57). BANGKOK Thundershowers. Temp.30-25 (86-77). HONGKONG Fair. Temp.32-28 (90-82). MANILA Cloudy. Temp.35-24 (95-75). SEOUL Cloudy. Temp.19-17 (66-63). SINGAPORE Thundershowers. Temp.31-25 (88-77). TOKYO Rain. Temp.20-15 (68-59).

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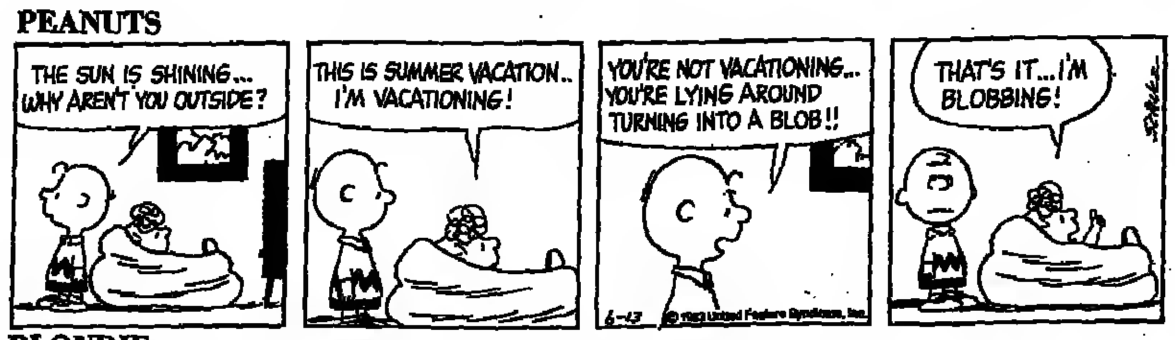
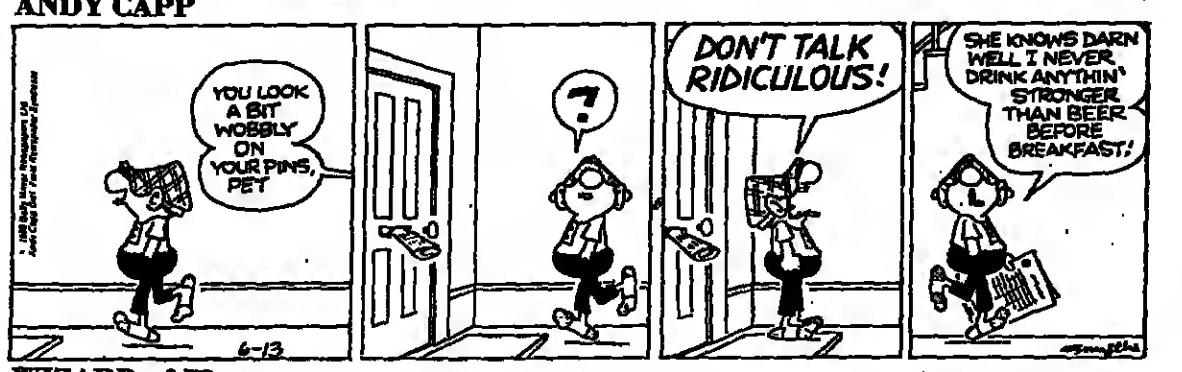
PEANUTS



BLONDIE

BEETLE BAILEY

ANDY CAPP



WIZARD of ID

REX MORGAN

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BOOKS

WRITERS IN AMERICA: The Four Seasons Of Success.
By Budd Schulberg. 224 pp. $16.95. Stein & Day, Scarborough House, Briarcliff Manor, New York, N.Y. 10510.

Reviewed by Richard F. Shepard

BUDD Schulberg, whose successes include "What Makes Sammy Run" (written when he was in his early 20s), "The Disenchanted" and "On the Waterfront," writes, in the most compelling way, about the American standards of success or failure in "Writers in America," a volume originally published in 1973 and now republished in a revised and updated edition.

Schulberg is repelled by the manner in which authors are credited for a work generally regarded as so great that other writings by them are reckoned as failures. He is appalled by a "rating" system that symbolizes a national "numero uno" psyche. He gives us case histories of six great authors, all deceased, whom he knew and who suffered from this syndrome that turns literature into popularity contests.

His subjects are Sinclair Lewis, William Saroyan, F. Scott Fitzgerald, Nathanael West, John Steinbeck and Thomas Heggen, whose one success, whose one piece of writing, was "Mister Roberts" and who died, still young, before he could test his promise of more.

Schulberg knew all of these writers personally; some were intimate friends and others were certainly more than mere acquaintances. Each was a completely different personality, and a byproduct of this absorbing volume is the wealth of anecdotal material in it. But the main theme dwells in the problem of the writer trying to outdo himself, to match his earlier and much-acclaimed work and the feeling that he is failing. These writers were unlike Ernest Hemingway who, as Schulberg notes, not only made an art of writing but also "a business of success." They suffered pangs of inadequacy and reacted in a multitude of ways, Fitzgerald by drink, Sinclair Lewis by letting his editors play too large a role in his creativity, Nathanael West by not competing at all.

The irony of all this is not lost upon the author, who notes that many of these writers had to die first before gaining the recognition for their full body of work that was denied them while they lived.

MURDER STORY.
By Lester Velie. 289 pp. $15.95. Macmillan, 866 Third Ave., New York, N.Y. 10022.

IN the spring of 1980, two 16-year-old boys sneaked out of an unguarded reform school in northern Westchester County in New York and broke into a nearby house with robbery in mind. In the course of the break-in, an elderly woman was viciously clubbed and strangled to death while her crippled husband was battered.

This crime in an affluent, "safe" neighborhood inspired Lester Velie to write "Murder Story," not a novel but a true murder story in which every participant emerges in his account as a full-blown human being rather than a stereotype.

Velie set to work as a reporter. He dug assiduously — some might say he overdug — into the backgrounds of the victims and the assailants, interviewing relatives and friends, and tracing family trees and the conditions in which those people lived. He takes the reader from the very first contemplation of the crime by the ringleader to the aftermath, in which the two boys, who were used to treatment as juvenile offenders, find themselves in general prison populations, where they have been sentenced to spend at least 20 years.

The writing is clear, letting the drama and the ironies emerge from the facts rather than from the phrase. The author reveals a story of inept social services and of slack youth-detention centers, which may well have contributed to the final tragedy. The miscreants have their say in the book, and so do the survivors. The reader will not, however, be moved to concluding that society is at fault while the criminals are not, despite their early rejection by family and the world. It is not that sort of moralizing book.

Velie dispassionately examines the systems charged with caring for such youngsters and finds they woefully fail their charges. It is not so much a matter of pinpointing individuals who are at fault — the officials here are for the most part trying very hard to do their jobs within the mandates of laws that do not permit them to do what they feel is necessary — but of general, serious failings of bureaucracies.

In the telling of "Murder Story" the author has found many admirable people, both in the family of the victims and in the families of the convicted. Despite the basic pessimism that such a story must be based on, the account indicates there are many more decent people around, enough to give hope to the world. It is only sad to meet them under these brutal circumstances.

"Murder Story" is a well-written, lucid account that leaves few, if any, unanswered questions.

Richard F. Shepard wrote these reviews for The New York Times.

Solution to Friday's Puzzle

ASTRO CLAN APSE
STAID RARE EELS
SUFFERANCE GAIT
ANTELOPES CIRCE
REBUS GASSER
SPA TEL MIRTH
HARP SECONDHAND
ORBIT NUM SUPER
PROTRACTOR SERA
REEVE POP DOG
INVOKE SOPUP
CAIUS COLERIDGE
AMTS LIBIDINOUS
NEAL UTES STRAP
TREY GERM TAMMY

BRIDGE

By Alan Truscott

ON the diagramed deal, after South had opened one diamond, West's bid of two diamonds was Michaels, showing length in both major suits. Over a major suit, it would show length in the unbid major and one minor.

North raised diamonds and East tried four hearts. This contract would have failed by one trick, but South reasonably continued to five diamonds.

East doubled and had plenty to think about when his partner led the heart king. With both sides vulnerable, the active bidding by West and South with only 20 high-card points between them suggested that South held at most a singleton in both major suits.

The likely distribution for the declarer was 1-1-6-5, and he would be able to handle all his clubs by leading up to his presumed king. Two clubs could be ruffed, and one discarded on dummy's spades.

Normal defense offered no hope, but East visualized the layout shown in the diagram, with his partner holding a doubleton club jack, and had a brilliant idea. He overtook the heart king with the ace and returned a trump. When South won in dummy and led the singleton club, East played the queen, a spectacular move.

He hoped that South would duck, the right play from his angle if West held a doubleton club ace. If East held the lead with the queen, another trump lead would defeat the contract.

Unfortunately for East, South's actual club holding was not as shown. It was K-J-10, and when he played the king, looking surprised, he had no trouble making the game and an overtrick.

NORTH
♠AK765
♡872
♢Q1043
♣7

WEST
♠Q10932
♡KQJ94
♢9
♣J2

EAST (D)
♠J8
♡A1065
♢82
♣AQ865

SOUTH
♠4
♡3
♢AKJ765
♣K10942

Both sides were vulnerable. The bidding:

East	South	West	North
Pass	1 ♢	2 ♢	3 ♢
4 ♡	5 ♢	Pass	Pass
Dbl.	Pass	Pass	Pass

West led the heart king.

The Associated Press

RUGBY RAMPAGE — Scottish flanker Jim Calder readying a pass, with English scrumhalf Nigel Melville in support, as the British Lions routed Southland Saturday, 41-3, in Invercargill, New Zealand. Melville scored two of the Lions' six tries.

Life After .500: Toronto Comes of Age

By Jerry Crowe
Los Angeles Times Service

OAKLAND, California — When the Toronto Blue Jays came out here last week after an all-night flight from Baltimore, the players went straight to their hotel rooms to get some sleep.

Within minutes, many were back at the front desk, complaining that they had been given queen-size beds instead of kings.

The manager, Bobby Cox, could only shake his head in disbelief at such complaints.

"Hey," somebody yelled to him, "that's life with a first-place team."

The Blue Jays are no longer in first place in the American League East, but they are contenders, tied for second place four games behind the Orioles. That alone is pretty heady stuff for a team that just two years ago finished 32 games below .500. Toronto has never before gone this far into a season with a record above .500.

What has happened — and is still happening — is that the Blue Jays have almost an entire team of young players maturing at the same time. And several more are on the way.

"They can win it," Sparky Anderson, manager of the Detroit Tigers, said recently. "They have more speed, more pitching and better defense than any team in the division. The only thing they don't have is more power."

The Blue Jays, assembled by Pat Gillick, vice president for baseball operations, gained a measure of respectability last year. Although they finished in a tie for sixth place in the Eastern Division, it was the first time they had not finished last. And they won 78 games, a 24-game improvement over their inaugural 1977 season.

During the off-season they added a few veterans — Cliff Johnson, a designated hitter, and the relief pitcher Randy Moffitt have been the most productive — and suddenly they found themselves challenging their more established brethren in the American League East.

Their pitching staff, led by Dave Stieb, is the envy of almost every team in the league. Damaso Garcia is one of the game's best second basemen, and Willie Upshaw at first base and Lloyd Moseby in center field are being touted as future stars. Furthermore, none of their best pitchers or everyday players is older than 28.

In spring training this year, the Blue Jays were being billed by one knowledgeable baseball writer as "the Kansas City Royals of the '80s."

A baseball executive for 20 years, Gillick has been praised for his considerable patience in letting Toronto's young players develop. Rather than make wholesale changes that might have made the club more competitive earlier, Gillick has taken a more far-sighted approach, developing players from within.

Cox was brought in last year after managing the Atlanta Braves for four years.

The move apparently is working out well for everybody. The players seem to love Cox, an energetic, enthusiastic sort who fits in well with a young team.

Ernie Whitt, a catcher, one of three Blue Jays from the original expansion pool, said: "Before, everything was negative. The managers [Roy Hartsfield and Bobby Mattick] would say, 'We don't want to lose 100 games' or 'We don't want to lose 90 games' instead of saying, 'We want to win 70 or 80 games.' Bobby brought a winning attitude, a positive attitude."

Cox, 42, inherited a team that was built around pitching.

Stieb, drafted in 1977 as an outfielder out of Southern Illinois, was the real find. He is among the league leaders in several categories and, at 25, is being called one of baseball's best pitchers.

Jim Clancy, one of the original Blue Jays, is not far behind Stieb. He signed a four-year, $3.5-million contract in the last year. Stieb is signed for six years and $5.5 million. Luis Leal has been called the league's most underrated pitcher.

The Blue Jays, owned by R. Howard Webster, a Canadian industrialist (45 percent), Labatt's Breweries (45 percent) and the Canadian Imperial Bank of Commerce (10 percent) have been stable, although Peter Bavasi resigned in 1981.

Bavasi molded the Blue Jays into a remarkably visible team despite their lack of success on the field. In their first year one of every 10 Canadians bought a Blue Jays cap. By 1980, a marketing institute announced that the club logo — a blue and white jay head and the traditional red maple leaf superimposed on the outline of a red baseball — was second only to McDonald's Golden Arches as the most recognizable among corporations in Canada.

"I don't know if we'll win it," Gillick said of the 1983 pennant, "but I think we'll be there at the end because of our pitching and because our players haven't reached their potential and they're going to get better with every game."

Transition

BASEBALL
American League

CALIFORNIA—Placed Geoff Zahn, pitcher, on the 21-day disabled list. Recalled Curt Brown, pitcher, from Edmonton of the Pacific Coast League.

SEATTLE—Optioned Ken Phelps, first baseman, and Dave Edler, infielder, to Salt Lake City of the Pacific Coast League. Recalled Jim Maler, first baseman, and John Moses, outfielder, from Salt Lake City.

National League

CHICAGO—Sent Paul Moskau, pitcher, to the club's Triple A team at Des Moines. Asked waivers on Wayne Nordhagen, outfielder, for the purpose of giving him his unconditional release. Placed Leon Durham, outfielder, on the 15-day disabled list. Recalled Tom Grant, outfielder, from Iowa of the American Association.

PITTSBURGH—Reactivated Don Robinson, pitcher. Assigned Randy Niemann, pitcher, to Hawaii of the Pacific Coast League.

BASKETBALL

SAN ANTONIO—Named Morris McHone head coach and signed him to a one-year contract.

FOOTBALL
National Football League

CHICAGO—Signed Rob Fada, offensive guard.

HOUSTON—Signed Darl Hart, linebacker, and Tim Wilson, tight end.

KANSAS CITY—Signed Todd Blackledge, quarterback, to a series of four one-year contracts.

WASHINGTON—Signed Darrell Green, cornerback, to a series of five one-year contracts.

United States Football League

MICHIGAN—Bob Gruber, punter, to a free-agent contract.

Major League Standings

AMERICAN LEAGUE

East

	W	L	Pct.	GB
Baltimore	35	23	.603	—
Detroit	30	26	.536	4
Toronto	30	26	.536	4
New York	29	27	.518	5
Boston	28	28	.500	6
Milwaukee	27	28	.491	6½
Cleveland	25	30	.455	8½

West

	W	L	Pct.	GB
California	31	25	.557	—
Kansas City	28	24	.538	1
Oakland	30	27	.526	2½
Texas	28	27	.509	3½
Chicago	25	31	.446	7
Seattle	24	37	.393	10½
Minnesota	23	36	.390	10½

NATIONAL LEAGUE

East

	W	L	Pct.	GB
St. Louis	29	24	.547	—
Montreal	28	25	.528	1
Philadelphia	24	26	.480	3½
Chicago	25	30	.455	5
Pittsburgh	22	32	.407	7½
New York	20	34	.370	9½

West

	W	L	Pct.	GB
Los Angeles	38	18	.679	—
Atlanta	34	22	.607	4
San Francisco	30	28	.517	9
San Diego	27	30	.474	11½
Houston	26	31	.456	12½
Cincinnati	25	33	.431	14

SPORTS

Caveat Wins Belmont Stakes As Slew O' Gold Finishes 2d

By Steven Crist
New York Times Service

NEW YORK — The winner of the third leg of the Triple Crown was tipped off everywhere you looked Saturday: all over the program, on the infield flowerbeds, on the starting gate, on the sign at the front of the track and on the name of the race itself. The winner of the Belmont Stakes at Belmont Park was Caveat, a colt owned by August Belmont 4th, in whose family's honor the race and the track are named.

The 115th Belmont had shaped up as a two-horse race between Caveat and Slew O' Gold, and that's exactly how it was developing as the field turned for home. Then Laffit Pincay and Caveat bulled their way through on the rail, rushed past Slew O' Gold on the inside, and won by 3½ widening lengths. The winner was clearly best.

This was the second straight Belmont victory for Pincay and for Woody Stephens, the winning trainer, who teamed up with Conquistador Cielo to win the race last year. Caveat — the Latin word for "let him be warned" or just "a warning" — is owned in partnership by Belmont and by James Ryan's Ryehill Farm, which bred the son of Cannonade and Cold Hearted. Caveat earned his owners $215,100 from a record purse of $358,500.

Caveat paid $7.20 for $2 to win as the second choice of the crowd of 60,397 in a record field of 15. Slew O' Gold, the slight favorite at 5 to 2, finished 1¾ lengths ahead of Barberstown, who nosed out Megaturn and High Honors, the third choice at 9-2, for third place. Deputed Testamony, the fourth choice at 9-1, was another half-length back.

The winning time of 2:27.8 for the mile and a half was relatively undistinguished over a very fast track that was yielding superior times all day.

Immediately after the finish, the Belmont stewards posted the inquiry sign and studied the films of the far turn, when Caveat twice brushed against Au Point as he whisked past him on the inside. Slew O' Gold, who had taken the lead briefly, seemed to be squeezing them both on the rail, and Pincay appeared to have gone through a very narrow opening. But the stewards decided the brushing had been negligible and let the result stand.

This was the second straight year in which a different horse won each of the Triple Crown races and in which no horse even started in all three races. Sunny's Halo, who won the Kentucky Derby, finished sixth in the Preakness, and Deputed Testamony, the Preakness winner, finished sixth on Saturday.

Sunny's Halo was held out of the Belmont because his handlers did not think he could handle a mile and a half at this point in his career.

Caveat, Sunny's Halo and Slew O' Gold might hook up in a definitive rematch in the Travers Stakes at Saratoga on Aug. 13. Caveat was the eighth different winner of the nine Grade I stakes for 3-year-olds this year.

Two days before the Belmont, Stephens said that this year's 3-year-olds were "not much" and that "there are no Conquistador Cielos" in the Belmont field. Stephens does not put Caveat in the same league with Conquistador Cielo and many of the other stakes winners he has trained. Until he won the Derby Trial on April 30, in fact, Caveat had no victories in 11 races on the dirt.

Since then, however, the colt seems to have improved. He won the Derby Trial, finished a fast-closing third in the Kentucky Derby, then easily defeated older allowance horses in a Belmont tune-up. Stephens says he still believes that Caveat's real future is in racing on the grass, where his lack of early speed is not as much of a disadvantage.

"He's really come around over his last three races," Pincay said, but Stephens was already warning not to expect too much from the winner.

"He's about as fit as can be right now, and he's not going to get much better," the trainer said.

The race went off cleanly as the field broke from two linked starting gates, necessary to accommodate the overflow field. Au Point, who broke from post 15 on the far outside, quickly assumed the lead and opened up four lengths after a first quarter in 23.4 seconds. Deputed Testamony was in second place briefly, then Slew O' Gold moved through after breaking from the rail to be second by a length at a half-mile in 47.4. Au Point still led by a length after a mile in 1:36.4, but then Cordero went to work on the favorite.

But while Slew O' Gold was gradually reaching the lead from the outside, Caveat was gaining even more ground under Pincay on the rail. Caveat, as usual, was far back early, in 11th place and 18 lengths behind the leaders after half a mile. But he looked like a winner as he and Pincay zoomed into the stretch turn. The colt did not hesitate as Pincay steered him through the narrow opening inside Au Point, who was tiring quickly.

When they straightened away in the stretch, Caveat went right by Slew O' Gold, and no one was gaining any ground on him at the finish.

United Press International

Caveat (right) racing to the wire in front of Slew O' Gold in the Belmont Stakes.

How the Pincay-Stephens Team Made the Record Books

By George Vecsey
New York Times Service

NEW YORK — Woody Stephens is hardly the only member of the Laffit Pincay Jr. fan club, but he's willing to be a life member after Saturday's hard ride along the rail that put the two of them in the record books.

Pincay's ride on Caveat made him and Stephens the second jockey-trainer combination to win back-to-back Belmonts, following last year's romp on Conquistador Cielo. Ron Turcotte and Lucien Laurin accomplished it in 1972-73 with Riva Ridge and Secretariat.

The Panamanian jockey and the Kentucky-born trainer don't work together often, but when they do, the sparks fly. Part of it has to do with Stephens having enough stature in the training business to only handle good horses; part of it has to do with Pincay being able to pick his spots.

And part of it has to do with Pincay, at 36 years old, remaining at the top of his form and Stephens, three months shy of his 70th birthday, becoming a legend.

Stephens spoke of his admiration for Pincay on Saturday afternoon while standing in his customary post-Belmont position, on the stairway of the press box with a glass of Scotch in his hand. ("I'm from Kentucky but, you know, I've never really liked bourbon," Stephens admitted.)

He remembered a 1974 race in Florida that neither Pincay's nor his horse won, but he liked the way Pincay rode. By that time, Pincay had been the leading money-winner in the United States for four consecutive years, but Stephens was now officially impressed.

However, Stephens trains mostly on the East Coast, and Pincay is happy to stay near his family and the big stakes available in the Los Angeles area. Pincay will fly East for the big races but this is a jockey who can be picky.

"Three or four years ago, I ran into Laffit getting out of a taxicab," Stephens recalled Saturday. "I said, 'Who are you riding for?' He said: 'For you.' "

They did just enough business that Pincay felt comfortable calling the Stephens house last year and volunteering to Lucille Stephens that he wouldn't mind riding Conquistador Cielo, the big colt that Stephens nursed through the early part of the season, if Eddie Maple should not be available.

"Lucille told me Laffit called, but I forgot about it until Eddie hurt his ribs," said Stephens.

Maple cracked his ribs the day before last year's Belmont. Stephens promptly called Pincay in Los Angeles, but the jockey missed his overnight flight to New York and had to make a connection in Boston. He was tired but it hardly mattered the way Conquistador Cielo roared to a 14-length victory.

This year Pincay had plenty of warning. Maple, Stephens's regular rider, had a choice between Chumming or Caveat, the two Kentucky Derby hopefuls.

"Eddie's a fine boy," Stephens said Saturday. "A fine rider. He had his choice and he picked Chumming in the Flamingo. I asked Laffit to ride Caveat in the Derby Trial Stakes and I told him if I didn't like the way he rode him, I might make a switch. But Laffit won it. You don't take a rider off a horse when he wins."

Caveat finished third in the Derby and Stephens held him out of the Preakness. But the colt was ready Saturday and Pincay was, too. The jockey rode his day's schedule in California, then took the red-eye flight to New York, arriving at 6:30 A.M.

"It doesn't bother me the first day," said Pincay, who was preparing to fly right home to California before the jet lag caught up with him.

Before he left, he gave the big crowd something to remember: a hard and careful ride, taking a pounding from the rail on his left and Au Point on his right.

"I knew I was going to make a move and I saw the hole inside," Pincay said later.

But the hole did not develop easily because the No.11 horse, Au Point, with Gregg McCarron riding, was moving to his left, as Slew O' Gold, with Angel Cordero, hard at his right. Both Pincay and Stephens felt Cordero was indulging in a bit of bumper cars.

"If I finished second and Cordero won, yes, I probably would have done it," Pincay said, referring to the possibility of filing a claim. "Not that he did it on purpose."

Stephens was not that tolerant. The trainer had suffered through the cruel blinking of the inquiry sign and the long minutes before the stewards decided the bumping near the rail "could have been a 50-50 proposition with the No.11 horse contributing to it."

Stephens didn't think there was anything 50-50 about it.

"I feel very bad," he said, perched on the press-box stairs. "It's very uncalled for. If he'd have won, his number would have come down. If he wins, he must come down — unless you're looking at some other television set."

The stewards' television set disclosed nothing worth changing the final verdict, which put Woodford C. Stephens and Laffit Pincay Jr. into the record books.

Perhaps this one felt even better than last year's victory with Conquistador Cielo because of the one-sidedness of that race. Pincay has said: "I think any jockey could have won with him that day."

Pincay had to work Saturday. But he has learned the skills that allowed him to wait for the right moment, not to panic when he bounced from the rail to Au Point and back again. He showed that he has lost none of the courage and the skill that have made him a dominant jockey for a decade.

How long can Pincay keep it up? He knows the flights on the red-eye will catch up with him eventually. He helped his career a few years ago when he found he could keep his weight down with a diet of bran, nuts, grains, fruits and vegetables with only a little bit of chicken and fish once a week or so.

He has talked of working on the gentlemanly circuit in England for a year and then coming back to the United States to try training.

Would he work with or compete against Woody Stephens? That is a question Stephens will have to answer. At the age of 69, he has won two consecutive Belmonts and is certain to try for a third next year.

At this stage, Stephens has no way of knowing who his horse would be in the Triple Crown next year. But he can safely book a seat on the red-eye from Los Angeles to New York on the second Friday night in June next year. Make the reservation in the name of Laffit Pincay Jr. First-class section, of course.

Orioles Win 6th Straight Game With 10-6 Triumph Over Red Sox

Boston Drops 7th — Its Longest Drought Since '81

Compiled by Our Staff From Dispatches

BOSTON — John Lowenstein drove in three runs with a pair of singles and Ken Singleton lined a two-run double Saturday as the Baltimore Orioles extended their winning streak to six games with an 10-6 victory over the Boston Red Sox.

Retired in order for three innings by Boston's starter, Bobby Ojeda (3-2), the Orioles erupted for three runs in the fourth, three in the sixth, two in the seventh and two in the ninth and had a total of 14 hits. Baltimore left-hander Scott McGregor (8-3) allowed nine hits but only two runs in five innings.

Boston extended its longest losing streak since early in the 1981 season to seven games despite 15 hits, including Reid Nichols's third homer. The Red Sox, who were tied for the lead in the American League East one week ago, dropped six full games behind the first-place Orioles.

Indians 9, Tigers 1

In Detroit, Juan Eichelberger yielded just four hits over eight innings and Broderick Perkins drove in four runs with a single and a double to lead Cleveland to a 9-1 rout and snap the Tigers' six-game winning streak.

A's 5, White Sox 4

In Oakland, California, Tony Phillips singled in pinch runner Luis Quinones from third base in the ninth inning to lift the A's to a 5-4 victory over Chicago.

Brewers 6, Yankees 2

In Milwaukee, Robin Yount's double keyed a four-run fourth inning and Bob McClure and Bob Gibson combined on a six-hitter to lead the Brewers to a 6-2 victory over New York.

Rangers 11, Twins 0

In Minneapolis, Buddy Bell, Bobby Johnson and Wayne Tolleson each ripped two-run homers to pace a 17-hit attack, and Danny Darwin pitched a five-hitter to lead Texas to a 11-0 trouncing of Minnesota.

Blue Jays 3, Angels 2

In Anaheim, California, Jim Gott pitched eight good innings, then Randy Moffitt halted a ninth-inning rally as Toronto beat the Angels, 3-2.

Royals 4, Mariners 1

In Seattle, Bud Black and Dan Quisenberry pitched a five-hitter as Kansas City won its fifth straight, beating the Mariners, 4-1.

Phillies 9, Pirates 7

In the National League, in Philadelphia, Steve Carlton (7-6) won his 292d career game when Tony Perez hit a two-run homer in the seventh to break a 4-4 tie and Mike Schmidt added a three-run shot, his 12th, in the eighth to lift the Phillies to a 9-7 victory over Pittsburgh.

BASEBALL ROUNDUP

Cardinals 5, Cubs 4

In Chicago, Darrell Porter's two-out RBI single in the top of the 10th lifted St. Louis to a 5-4 victory over the Cubs. Bruce Sutter (5-3) earned the victory and Joáquin Andujar earned his first save of the year. Lee Smith (1-3) was the loser.

Dodgers 3, Reds 2

In Cincinnati, Bill Russell's two-out, two-run homer in the ninth paced Los Angeles to a 3-2 victory over the Reds. Frank Pastore carried a four-hitter into the ninth, but walked Greg Brock with one out. Bill Scherrer relieved and, one out later, after Ben Hayes came on, Russell homered to make a winner of Tom Niedenfuer. Dave Stewart pitched the ninth for his seventh save.

Expos 5, Mets 2

In New York, Bobby Ramos tripled in two runs in the sixth and Randy Lerch (1-0) combined with Jeff Reardon on a five-hitter to help Montreal beat the Mets, 5-2.

Giants 7, Braves 6

In Atlanta, Darrell Evans hit two homers and drove in five runs to power San Francisco to a 7-6 victory over the Braves.

Padres 8, Astros 4

In Houston, Terry Kennedy's three hits and two RBIs and outstanding relief pitching by John Montefusco and Sid Monge led San Diego to a 8-4 victory over the Astros. Montefusco (5-1) allowed no hits in 3⅓ innings of relief, striking out two and walking one, and Monge pitched the last two innings, allowing two hits.

Friday: Kingman Powers Mets' 4-2 Defeat of Expos

Compiled by Our Staff From Dispatches

NEW YORK — Dave Kingman hit a two-run homer with two out in the 17th inning Friday night to give the New York Mets a 4-2 victory over the Montreal Expos.

Hubie Brooks led off the 17th with a bloop single to right off the losing pitcher, Bryn Smith (1-3). Rick Ownbey (1-3), the winner, sacrificed Brooks to second and, after Mark Bradley struck out, Kingman followed with his 11th homer of the year.

Montreal scored in the first inning on a bunt single by Bryan Little, a double by Andre Dawson and an RBI infield out by Al Oliver, but New York tied the score in the second when Brian Giles hit a two-out double and scored on a single by Josè Oquendo.

The Mets took a 2-1 lead in the eighth when Darryl Strawberry reached base on an error by Oliver, the first baseman. He took third on a single by George Foster and scored on Kingman's sacrifice fly.

Montreal tied the score at 2-2 in the ninth. With one out, Doug Sisk walked Warren Cromartie before Jesse Orosco came on in relief. Mike Vail greeted Orosco with a pinch single to center, putting runners at first and second. Jim Wohlford followed with a pinch single to right, scoring Cromartie.

Astros 2, Padres 1

In Houston, Mike LaCoss, Frank LaCorte and Bill Dawley combined on a five-hitter as the Astros beat San Diego, 2-1.

Cubs 7, Cardinals 0

In Chicago, Ferguson Jenkins pitched a four-hitter and Jody Davis drove in four runs to lead the Cubs to a 7-0 victory over St. Louis. Jenkins (3-3) struck out four and walked one in earning his 281st career victory and his 49th shutout.

Reds 3, Dodgers 2

In Cincinnati, the Los Angeles second baseman, Derrel Thomas, dropped a pop fly off the bat of Johnny Bench, enabling the Reds to score two unearned runs in the fifth inning for a 3-2 victory.

Pirates 4, Phillies 3

In Philadelphia, Bill Madlock doubled home Johnny Ray with two out in the 12th to give the Pirates a 4-3 victory.

Giants 6, Braves 4
Braves 7, Giants 3

In Atlanta, Jack Clark doubled home a pair of runs in the 10th to give San Francisco a 6-4 triumph in the opener of a doubleheader, but the Braves won the nightcap, 7-3.

Orioles 3, Red Sox 0

In the American League, in Boston, Storm Davis (4-3) pitched a three-hitter to lead Baltimore to a 3-0 triumph over the Red Sox.

Tigers 7, Indians 1

In Detroit, Dave Rozema and Aurelio Lopez combined on a seven-hitter to give the Tigers a 7-1 victory over Cleveland. Rozema (3-0) allowed just five hits in six innings, and Lopez earned the save by going the last three innings.

Yankees 7, Brewers 1

In Milwaukee, Shane Rawley pitched a six-hitter and Willie Randolph and Graig Nettles each drove in a pair of runs to lead New York to a 7-1 victory over the Brewers. Rawley (6-5) walked one and struck out two in going the distance.

Rangers 4, Twins 2

In Minneapolis, George Wright hit a bases-empty homer and Frank Tanana and John Butcher combined on a five-hitter to pace Texas's 4-2 defeat of Minnesota.

Angels 5, Blue Jays 3

In Anaheim, California, Reggie Jackson and Doug DeCinces each homered to key a five-run eighth inning to boost the Angels to a 5-3 victory over Toronto.

Royals 2, Mariners 0

In Seattle, Paul Splittorff and Mike Armstrong combined on a three-hitter to pace Kansas City to a 2-0 victory.

A's 2, White Sox 1

In Oakland, California, Chicago's shortstop, Jerry Dybzinski, booted Jeff Burroughs's two-out grounder in the 16th inning, allowing Garry Hancock to score from third and give the A's the victory, 2-1.

Major League Line Scores of Friday and Saturday

SATURDAY'S GAMES

American League

Cleveland 220 100 003—9 8 0
Detroit 000 000 100—1 4 0

Eichelberger, Spillner (9) and Hassey; Pashnick, Berenguer (2), Underwood (4) and Fahey. W—Eichelberger, 3-3. L— Pashnick, 1-1.

Baltimore 000 303 202—10 14 0
Boston 000 201 003—6 15 2

McGregor, Stewart (6), T.Martinez (9) and Dempsey; Ojeda, Stanley (6), Johnson (8) and Allenson, Gedman (9). W— McGregor, 8-3. L—Ojeda, 3-3. HR—Boston, Nichols (3).

Chicago 002 010 000—4 5 2
Oakland 002 100 011—5 10 1

Hoyt and Hill; McCatty, Conroy (6) and Kearney. W—Conroy, 2-1. L—Hoyt, 6-7. HRs—Chicago, Hairston (3). Oakland, Gross (7), Hancock (1).

New York 000 000 200—2 6 1
Milwaukee 000 402 00x—6 9 0

Guidry, Frazier (7) and Cerone; McClure, Gibson (7) and Yost. W— McClure, 3-7. L—Guidry, 8-4.

Texas 121 012 400—11 17 0
Minnesota 000 000 000— 0 5 1

Darwin and Johnson; Havens, Filson (4), O'Connor (7), Whitehouse (7) and Laudner. W—Darwin, 4-5. L—Havens, 4-6. HRs—Texas, Bell (6), Johnson (3), Tolleson (1).

Toronto 002 010 000—3 7 1
California 010 000 001—2 7 0

Gott, Moffitt (9) and Whitt; Goltz, Hassler (8), Sanchez (9) and Boone. W—Gott, 3-6. L—Goltz 0-5.

Kansas City 000 300 100—4 9 0
Seattle 001 000 000—1 5 0

Black, Quisenberry (8) and Slought; Perry, Thomas (7), Vande Berg (7) and Mercado. W—Black, 3-0. L—Perry 3-6.

National League

St.Louis 012 010 000 1—5 11 0
Chicago 000 004 000 0—4 10 2

Martin, Bair (6), Von Ohlen (7), Sutter (8), Hagen (10), Andujar (10) and Porter; Lefferts, Brusstar (5), Noles (6), Campbell (7), La.Smith (9) and Davis. W—Sutter, 5-3. L—La.Smith, 1-3. HRs—St. Louis, Hendrick (11). Chicago, Davis (9).

Pittsburgh 201 001 003—7 13 1
Philadelphia 110 002 32x—9 11 1

Tunnell, Guante (6), Scurry (6) and Nicosia; Carlton, Holland (9) and Diaz. W— Carlton, 7-6. L—Scurry, 2-4. HRs—Pittsburgh, Madlock (3). Philadelphia, Perez (5), Schmidt (12).

Los Angeles 100 000 002—3 6 0
Cincinnati 110 000 000—2 6 0

Beckwith, Wright (6), Niedenfuer (7), Stewart (9) and Reyes, Yeager (7); Pastore, Scherrer (9), Hayes (9) and Bilardello. W—Niedenfuer, 3-0. L—Hayes, 1-1. HR—Los Angeles, Russell (1).

Montreal 001 002 100—5 7 0
New York 000 000 200—2 6 2

Lerch, Reardon (7) and Ramos; Holman, Sisk (6), Diaz (8) and Reynolds. W—Lerch, 1-0. L—Holman, 1-4.

San Francisco 001 100 120—7 13 2
Atlanta 200 002 002—6 11 1

Hammaker, Minton (7), Lavelle (9) and May; Behenna, Camp (6), Garber (7), Forster (8), Bedrosian (9) and Benedict. W—Hammaker, 7-3. L—Garber, 1-1. HRs—San Francisco, O'Malley (2), Evans 2 (15). Atlanta, Murphy (15).

San Diego 102 002 010—8 14 0
Houston 003 100 000—4 7 1

Lollar, Montefusco (4), Monge (8) and Kennedy; Scott, Ruhle (3), Smith (7) and Ashby. W—Montefusco, 5-1. L—Ruhle, 1-2.

FRIDAY'S GAMES

American League

Baltimore 010 100 001—3 7 0
Boston 000 000 000—0 2 1

Davis and Dempsey; Hurst and Gedman. W—Davis, 4-3. L—Hurst, 4-5. HR—Baltimore, Roenicke (7).

Cleveland 100 000 000—1 7 2
Detroit 500 001 01x—7 9 2

Sorensen, Anderson (1), Easterly (7) and Hassey; Rozema, Lopez (7) and Parrish. W—Rozema, 3-0. L—Sorensen, 2-6. HRs—Cleveland, Hargrove (3). Detroit, Lemon (5).

New York 102 310 000—7 12 0
Milwaukee 000 000 001—1 6 2

Rawley and Wynegar; Haas, Porter (4), Augustine (9) and Yost. W—Rawley, 6-5. L—Haas, 4-2. HR—New York, Nettles (9).

Texas 002 000 100—4 7 0
Minnesota 000 010 010—2 5 0

Tanana, Butcher (7) and B.Johnson; Viola, O'Connor (6), Lysander (7), Whitehouse (9), Davis (9) and Laudner. W— Tanana, 2-1. L—Viola, 2-4. HRs—Texas, Wright (2). Minnesota, Engle (4).

Toronto 000 001 200—3 3 0
California 000 000 05x—5 6 1

Leal, McLaughlin (8) and B.Martinez; Travers, Brown (7) and Boone. W— Brown, 1-0. L—McLaughlin, 1-3. HRs— California, Re.Jackson (11), DeCinces (14).

Kansas City 100 000 001—2 9 2
Seattle 000 000 000—0 3 1

Splittorff, Armstrong (8) and Slaught; B.Stoddard, Vande Berg (9) and Mercado. W—Splittorff, 4-1. L—B.Stoddard, 4-8. HR—Kansas City, Aikens (2).

Chicago 001 000 000 000 000 0—1 10 1
Oakland 100 000 000 000 000 1—2 7 1

Bannister, Agosto (11), Tidrow (12) and Hill; Krueger, Baker (11), Burgmeier (13) and Kearney. W—Burgmeier, 4-2. L—Tidrow, 1-1.

National League

St.Louis 000 000 000—0 12 0
Chicago 040 010 02x—7 4 0

Stuper, Kaat (6), Hagen (8) and Porter; Jenkins and Davis. W—Jenkins, 3-3. L—Stuper, 7-3. HR—Chicago, Davis (8).

First Game

San Francisco 000 001 000 2—4 10 1
Atlanta 000 200 002 0—4 7 1

Breining, Barr (6), Lavelle (9), Minton (10) and May; Niekro, Camp (9), Bedrosian (9) and Benedict. W—Lavelle, 4-1. L—Camp, 5-6. HRs—San Francisco, Venable (3). Atlanta, Horner (11), Murphy (14).

Second Game

San Francisco 012 000 000—3 4 1
Atlanta 220 200 01x—7 14 1

Laskey, Martin (4), Kingman (7) and Brenly; Falcone, Moore (6) and Pocoroba. W—Falcone, 4-1. L—Laskey, 7-6. HR—San Francisco, Youngblood (3).

Los Angeles 000 100 010—2 11 1
Cincinnati 000 021 00x—3 7 0

Reuss, Zachry (6), Niedenfuer (8) and Yeager; Puleo, Scherrer (7), Hayes (9) and Bilardello. W—Puleo, 2-2. L—Reuss, 6-5.

San Diego 000 001 000—1 5 0
Houston 100 100 00x—2 7 1

Whitson, Lucas (6), DeLeon (8) and Kennedy; LaCoss, LaCorte (6), Dawley (8) and Ashby. W—LaCoss, 4-4. L—Whitson, 0-4.

Pittsburgh 000 020 010 001—4 12 0
Philadelphia 000 011 001 000—3 10 0

Bibby, Sarmiento (7), Tekulve (11) and Pena; Hudson, Reed (8), W.Hernandez (8), Altamirano (9), Holland (10), Farmer (12). W—Tekulve, 2-1. L—Farmer, 0-4. HRs—Philadelphia, Lefebvre (1), Hayes (1).

Montreal 100 000 001 000 000 00—2 14 1
New York 000 000 010 000 000 02—4 13 2

Burris, Reardon (9), Schatzeder (11), B.Smith (16) and Carter; Swan, Sisk (8), Orosco (9), Allen (11), Ownbey (14) and Hodges. W—Ownbey, 1-3. L—B.Smith, 1-3. HR—New York, Kingman (11).

SPORTS BRIEFS

Chinese Sets High Jump Record

BEIJING (UPI) — Zhu Jianhua set a world record in the men's high jump on Saturday with a leap of 2.37 meters (7 feet, 9¼ inches) during a national track and field competition here.

Zhu, a 20-year-old native of Shanghai, broke the record of 2.36 meters set by Gerd Wessig of East Germany in 1980.

The 1.93-meter-tall high jumper broke the record in his first attempt. He made an unsuccessful attempt at the world record during an international track meet here last June and failed again at the Asian Games in New Delhi last December.

Connors Tops McEnroe for Title

UPI

Jimmy Connors

LONDON (AP) — Jimmy Connors beat John McEnroe, 6-3, 6-3, here Sunday to retain his title in the Grand Prix tournament at the Queens Club.

It was the last big warm-up event on grass before Wimbledon.

The match was a repeat of the final last year, when Connors won this title and then went on to win Wimbledon.

In Saturday's semifinals, Connors defeated Ivan Lendl, 6-0, 6-3, while McEnroe beat Kevin Curren, 7-5, 7-6.

Yugoslavs Beat Spain in Davis Cup

MADRID (AP) — Yugoslavia upset Spain in the second round of the European Zone B Davis Cup tennis tournament on Sunday by winning the five-match series, 3-2. Slobodan Zivojinovic clinched the series for Yugoslavia by defeating Sergio Casal, 5-7, 3-6, 6-4, 6-3, 6-4, in the first of Sunday's two singles matches.

In the semifinals next month, Yugoslavia will play either Bulgaria or Finland. In other Zone B play Hungary defeated Zimbabwe, 4-1, to earn a chance to play Austrians, who beat Norway, 4-1.

In Zone A, Switzerland completed a 5-0 victory over Greece and will play the Netherlands as the Dutch team beat Egypt, 4-1. Israel defeated Monaco, 4-1, and West Germany eliminated Belgium, 5-0.

King Wins Event in Birmingham

BIRMINGHAM, England (UPI) — Billie-Jean King won the Wimbledon tune-up tournament here Sunday by defeating Alycia Moulton, 6-0, 7-5. It took the 39-year-old King, still ranked 10th in the world, just 58 minutes to defeat her fellow-Californian, 18 years her junior.

In Saturday's semifinals, Moulton advanced when Zina Garrison retired with an injured neck while she was losing, 0-5, in the first set. King beat Anne White, 7-5, 6-2.

Blackledge Signs With NFL Chiefs

KANSAS CITY, Missouri (AP) — Todd Blackledge, the quarterback who led Penn State to a 27-23 triumph over Georgia in the Sugar Bowl, has signed four one-year contracts with the Kansas City Chiefs of the National Football League for an estimated $1.5 million to $2 million.

"Five or six years ago, when you started setting goals for yourself, you always thought of the NFL," said Blackledge, who had considered playing for the Philadelphia Stars of the United States Football League. "Living in Canton [Ohio], I would go to the Hall of Fame all the time and sit there and watch those films they have every hour, so it always was the NFL."

Stallions, Federals Win in USFL

BIRMINGHAM, Alabama (UPI) — The Birmingham Stallions used a ball-control offense and a swarming defense that forced four interceptions to beat the Boston Breakers, 31-19, Saturday night in the United States Football League.

In Tempe, Arizona, Craig James scored a touchdown midway through the fourth quarter to give the Washington Federals an 18-11 victory over the Arizona Wranglers.

Deal for Zico Formally Concluded

RIO DE JANEIRO (AP) — Representatives of the Italian soccer club Udinese have signed an agreement to purchase the star midfielder Zico from Flamengo — Brazil's largest team — for $4 million.

Eduardo Motta, vice president of Flamengo, said that Udinese had given the Rio team $400,000 on Friday as a down payment. The remainder of money is to be paid by next Friday.

The sale was approved Thursday by Flamengo's team directors, and Zico signed his contract Friday. Zico's attorney had signed a preliminary agreement last week, beating the ban on foreign players imposed Thursday night by the Italian soccer federation.

United Press International

Ballesteros blasting out of a bunker.

Ballesteros Assumes Golf Lead

HARRISON, New York (AP) — Seve Ballesteros struggled to a 1-under-par 70 and pulled one stroke in front of Fuzzy Zoeller in Saturday's third round of the Westchester Classic golf tournament.

Ballesteros completed three trips over the 6,687-yard Westchester Country Club course in 206, seven shots under par. Zoeller, who started third-round play tied for the lead with Ballesteros, could do no better than match par 71 and had a 54-hole total of 207.

Neither played particularly well over the finishing holes, opening the door to potential challenges from Roger Maltbie and Lee Elder, who finished at 208, only two shots out of the lead. Elder matched the best round of the tournament with a 65. Maltbie shot 70.

For the Record

MOSCOW (UPI) — Anna Ambrozene Kastetskaia set a world record of 54.02 seconds in the women's 400-meter hurdles here Saturday, slicing 26 hundredths of a second off the previous record held by Karin Rossley of East Germany.

MONTERREY, Mexico (AP) — South Korea defeated Uruguay, 2-1 in two overtimes, and Poland beat Scotland, 1-0, on Saturday to advance to the semifinals of the Second Youth World Cup soccer tournament. On Sunday, Brazil was to play Czechoslovakia and Argentina was to play the Netherlands in the other two quarterfinal matches.

CARDIFF, Wales (UPI) — Brazil and Wales played to a 1-1 draw here Sunday in a friendly soccer international.

SYDNEY— Australia held England to a 0-0 draw in a friendly soccer international Sunday. Bobby Robson, the England manager, said the match was "very disappointing for the 28,000 spectators," while the Australian coach, Frank Arok, labeled it "my biggest moment."

SYDNEY (UPI) — Ron Tabb, an American, outpaced 2,400 athletes Sunday to win the inaugural Australian Marathon in in 2 hours 10 minutes 53 seconds. Annick Loir-Lebreton of France won the women's race.

TAEGU, South Korea (AP) — Chang Chong Ku of South Korea defended his World Boxing Council light flyweight title Saturday. He stopped Iha Masaharu, his Japanese challenger, in the second round.

NEW YORK (AP) — Peter McNamara of Australia, twice a Wimbledon doubles champion with Paul McNamee and currently the world's 10th-ranked singles player, has announced his retirement from professional tennis because of a severe knee injury.

LOUGHBOROUGH, England (UPI) — Sebastian Coe an invitational 800-meter race here Sunday in 1 minute 45.0 seconds, the fourth fastest time in the world this summer.

LANGUAGE

Period Pieces

By William Safire

WASHINGTON — Charlton Heston, the only actor who turns when somebody yells, "Moses!" or, "El Cid!" called me one morning recently. His stentorian voice over the telephone was indistinct — he was calling from a car, or from the top of Mount Sinai — but it was clear he had a language problem.

"I'm concerned about what I think may be anachronisms," he shouted, "in a script we're shooting down here." It turned out he was filming a television mini-series called "Chief" (which is about a police officer, and has nothing to do with Indians) set in a small Georgia town in the 1920s. "The scriptwriter is willing to accept your judgment on whether these expressions would have been in use down here in that era."

I whispered to myself the code word for the 1920s — *shenanigans!* — and prepared to hear the phrases Heston thought might not fit the time. Nothing is more off-putting — or, as they used to say, nothing sounds a more sour note — than a word or phrase in a historical movie that is in current usage but was unused at the time. "Lay it on me," I said (a 1960s term).

"*Wear it in good health!* is one of the phrases," the actor said. "And the other one is *So I lied.*"

Yiddishisms both. Harry Golden, who did not move South and become editor of The Carolina Israelite until the 1940s, used the expressions, but it is unlikely that many Southerners in the 1920s would have spoken that way. Today, sure: "Y'all weah it in good health, heah?" Not three generations ago, before television.

Unhesitatingly, I pronounced judgment (which I spell no other way): Those were anachronisms, mistakes writers have been making since Shakespeare had a character in "Julius Caesar" say he heard a clock strike. (The Romans had no clocks; they wore hourglasses around their wrists, or something.) If he wanted a Second Opinion, I told him to call Leo Rosten, author of "Hooray for Yiddish."

He did. Later, I spoke to my friend Rosten to make certain the phalanx of experts was sticking together. Sure enough, *Wear it in good health* is the English translation of the Yiddish-German *Trug es gezunderheit* (though Leo's mother used to say, "Vear it in good helt"). *So I lied* is probably the punch line of a forgotten Jewish joke: it sets aside the most common meaning of *so,* which is the chronological "and then," preferring a meaning synonymous with one of the many meanings of *nu*: a sly or ironic way of saying, "And what are you going to do about it?" To give the flavor of the intonation, the phrase would better be written: "So? I lied."

Rosten's point to Heston, who has a good ear, is: "Even if it's right, it's wroog" — that is, even if the expressions had been used in rural Georgia in the 1920s, their use in a movie would distract an audience: "In 1924? Absurd."

This episode led me to a file I have been building for months, with the help of Lexicographic Irregulars. The file is labeled "Chronisms," the opposite of anachronisms. These are words quivering in the aspic of time, perfect for use by dramatists who want to give historical scenes the flavor of authenticity, starring Vera Similitude, my 1940s *heartthrob.*

One class of chronisms deals with the names for objects no longer in use. Such rumble-seat chronisms include *milk bottle* in an age of containerization, *slide rule* on a platter of efficient chips, *watch fob* in a steady dose of digitalis, *scooters* for the skateboard generation, *Butterfield 8* in the all-digit era, *snood* in the Hairspray Age. It is not the word that has disappeared; the thing itself is gone or going, and the word reverberates like a shimmering old photo. If you want Vera to seem at home in a bygone era, have her tell her kid to pull up his *knickers* and crank up the *phonograph.*

More interesting to the linguist are the nonce-word chronisms, those words that zipped through a decade like naked *streakers* of the 1960s or the *twenty-three skiddoo* of the '20s. Uptown meant "ritzy," before *ritzy* became upscale. Peachy and keen merged, to be replaced by *nifty* and now *cool.* "We were pupils at school," writes Steve Cartwright of The Central Maine Morning Sentinel, a child of the Fabulous '50s, "a bunch of *bozos,* but we were pals. It was swell."

New York Times Service

The Small World of Mihaly Mezaros

By Christian Williams
Washington Post Service

WASHINGTON — Michu is 33 inches tall — the Smallest Man in the World. He is 43 years old, weighs 25 pounds, wears a size 3 shoe. His full name is Mihaly Mezaros, and when he was born in Budapest he weighed 2½ pounds and was 14 inches long.

Ringling Bros. and Barnum & Bailey today is shrewdly devoid of snake oil. Once the sideshow was a great draw, but now its absence is almost a relief.

Mihaly Mezaros is believed to be the smallest human known. In the circus, he rides a tiny cart, waving gaily to children taller than he; later he appears with his trained poodle act, and appears again as a comically tiny Tarzan. He is not in a sideshow, but the center ring.

"When I was born, my parents were working in Lilliputian Theater in central Budapest," Michu began in his Donald Duck voice, pausing to light a long cigarette high in the empty grandstands recently in Charlotte, North Carolina. "This was like a zoo park, you know? Lots of different shows going on, just like Great Adventure. Country people coming up to see it. Thirty people living in the Lilliputian House. My brother and sister were in the same business, too."

Then the war came and "the bombs fell. Everything was gone." He shrugged, a tiny gesture.

After the war, Michu, with other children who were dwarfs, attended a state-run circus school that taught juggling, pantomime and acrobatics as well as traditional subjects. "Ah, it was not too bad. Everybody was small, but the director and the teacher were taller guys."

For 15 years he traveled, working as a clown, unicylist, announcer and dancer for a small Eastern European show, "all that time sleeping and dreaming that I would come to United States."

To converse, Michu must look up. From this debased position he has learned to counter with a wisecrack. A new companion is unnerved. The advantage, on first meeting, is Michu's. Otherwise his advantages are few.

He is a midget — a term the circus reserves for dwarfs of normal physical proportions. His father and mother, Ganos and Margarite, and his brother and sister, also named Ganos and Margarite, were midgets, too. All were about 42 inches tall. Charles Stratton, whom Barnum exhibited as "Gen. Tom Thumb," was 40 inches tall as an adult.

His fellow performers give Michu a wide berth. He once was knocked down by an acrobat rushing to make a cue and was a week recovering. He is barred from strolling the streets of large cities because of the danger of accidental trampling.

Charly Baumann, the tiger trainer, picks Michu up and places him at eye level for a man-to-man talk. For most, however, that would be an act of unacceptable intimacy. Women who have tried it have found, in fact, that Michu responds with acts of unacceptable intimacy. He also bites, and has a habit of punching circus people behind the knee to announce his passing. He smokes cigarettes and cigars and drinks French brandy, sometimes excessively. A skilled mime, he is capable of devastating parody.

For these reasons, it is said by persons in the circus, Michu keeps to himself nowadays.

Michu is a bachelor, but he has been married more than 1,000 times in the center ring in an act that ran for more than two years.

"It was a big celebration every time," he said. "We were the smallest people ever to get married in the circus. Such a beautiful show. A long time ago General Tom Thumb got married and it was a very popular act. That's where the idea came from.

"But it didn't work out. She had never been with the circus before . . . I wanted to keep working together, but after two years she went back to Hungary. 'Hey, good luck to her. Bad luck to me.' "

Irvin Feld began to hear about a very small midget, the smallest in the world, in the early 1970s. If such a man existed, he was determined to get him. By 1971 he had narrowed the search to Hungary. In 1972, the Hungarian government confirmed the existence of such a man, but declined to let Feld meet him.

Feld is an entrepreneur-impresario in his 60s who wears thick eyeglasses and smokes thin cigars. He makes several trips yearly to Eastern Europe, auditioning performers. Feld recounted how he finally hired Michu.

"Finally I said to the Hungarians, 'Look, either you show us this man or we pass on all Hungarian acts. We're just not going to buy anymore until we see him.' Then we go back to the hotel in Budapest. So they send a car and driver at 10 o'clock at night. Ken and I get in the car, and we drive and drive and drive. Snow had just fallen, and the roads were lousy, and I began to get furious. I thought they were taking us for a ride. But eventually, after a long time, we came to a small village and stopped in front of a row of tenement houses, nine or 10 of them. There were some lights on upstairs. A guy leads us around to the back of the houses.

"Now at this time, I had just about no peripheral vision in my eyes at all. We were being led up these back steps, and suddenly there's two big green eyes staring at me, very close. We get to the top, and walk into a room. There's a python on the floor. All of a sudden, whoosh!, something runs between my legs. And that's how I met Michu. There was a bottle of brandy, and we talked. You should have seen the longing in his eyes when I said I needed him at Madison Square Garden.

"It turned out that the green eyes were a bear's. That's right. They also had a porcupine in there, and a python. What it was, was a scab [unauthorized] circus. That's the reason the Hungarians wouldn't show him to me before."

To confront Michu is to realize, almost at once, that there is no legitimate question. To the illegitimate questions — should we wish to pry into the private life of a 33-inch man — he responds mysteriously, in teasing sentences without verbs, with raised eyebrows, with inexplicable jigsaw pieces of disinformation: "I don't like trouble many times. Just sometimes." Or, "Not everybody perfect. Not everybody stupid."

His biographer will have to study equally the rest of us: the tall guys who think the universe was invented for them, waist-high and convenient. Michu thinks of himself as one of us ("no problem"), but it is not easy to respond in kind.

"It's okay," Michu said. "I'm happy. I have mobile home, generators, a barbecue. I like fishing. What I do is show business. Like comedy, really. I'm a good mime, they say? Thank you very much. To do it you must learn to observe people closely. No problem for me, I'm a professional.

"Really, I feel like a regular person. A life is a life. A job is a job. A paycheck is a paycheck. Take the paycheck and shut up. That's from Mr. Feld. Ah ha ha ha ha ha ha ha!"

Lucian Perkins, The Washington Post

Mihaly Mezaros, alias Michu.

ALGIERS POSTCARD

The Crumbling Casbah

By Michael Goldsmith
The Associated Press

ALGIERS — The legendary line "Come with me to the Casbah" has lost its glamor and mystery. The ancient heart of Algeria's capital has become a derelict, rat-infested slum.

The government has allocated the equivalent of $180 million to preserve the crumbling labyrinth of alleys and courtyards described as a "citadel of the nation's culture and history."

But UNESCO experts who spent two years drawing up plans for saving the Casbah concluded that 10 times as much money may be needed. The chronic housing shortage and the drop in Algeria's oil revenues have limited the funds available for safeguarding the nation's cultural heritage.

An estimated 100,000 people, many of them among the poorest of the city's 2.5 million inhabitants, are jammed together in the 1,700 buildings of the Casbah. Families of eight or 10 often live into a single rented room in primitive conditions.

Before the derelict houses can be demolished and rebuilt, accommodation must be found for the occupants. Since 1975, more than 200 four- and five-story Casbah houses, many of them at least two centuries old, have collapsed. There is no public record of the deaths or injuries. The survivors are housed in tents, sometimes for months, awaiting other accommodation in the suburbs.

To the visitor approaching Algiers from the sea, the Casbah is a cascade of white-painted terraces descending steeply to the harbor, seemingly as solid as when they were built in the early 18th century after a disastrous 1716 earthquake.

The Turkish bey, or viceroy, ordered the reconstruction as proof against further tremors, and the houses were built more solidly than was customary at the time. But the materials have not withstood the damp and rain of centuries. Housing Minister Ahmed Ali Ghazali says most of the houses are beyond repair, though he adds: "We intend to demolish only what is really irretrievable."

A start has been made in the Casbah's Lallahoum section, where 300 families were evacuated from houses in imminent danger of collapse. Some residents protested, but in vain. Most of the houses are privately owned. The landlords, who often collect rent from dozens of families in a single house, claim they lack the means to undertake repairs.

The Casbah covers a hillside of 115 acres. During French colonial rule, it was the center of the city's Moslem inhabitants and acquired a largely undeserved reputation of danger, intrigue and immorality. During the eight-year Algerian war of independence, its network of dark alleys became a hotbed of guerrilla activity crushed by French paratroopers in the 1957 battle of Algiers.

On some walls, faded "Off Limits" signs can still be seen, dating from the World War II occupation by British and American troops.

Since Algeria's 1962 independence, peace has returned to the Casbah, but its population has more than doubled. Artisans, shoemakers and tailors occupy many of the crumbling basements, and there are many small cafes and groceries.

Many of the occupants observe the cracks in the walls with as much concern as they feel about the official evacuation of the most dangerous areas. There is widespread controversy over whether priority should be given to preserving the Casbah or to providing modern housing for the inhabitants on the site of demolished buildings.

Traditionalists shudder at the prospect of a superhighway, a subway station, a high-rise parking garage and a giant bus station that are planned for the very edge of the Casbah.

"People like living here," said a jeweler, Mohammed Benaid, in his Casbah workshop. "They don't want to be moved into tents or into far-distant suburbs. So when they see cracks in their walls, they try to shore them up with planks or hide them with sheets of tarpaulin.

"We know most of us will eventually have to leave. But it would be heartbreaking if the planners were then allowed to turn our Casbah into a concrete desert."

It's a far cry from the 1930s, when the French actor Jean Gabin uttered the immortal invitation to his heroine, "Come with me to the Casbah," in the French film "Pépé-le-Moko," later remade in Hollywood as "Algiers," starring Charles Boyer and Hedy Lamarr.